

**1.1 Qualified Opinion**

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The audit of the financial statements of the Urban Investment and Development Company (PVT) Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of Comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

## 1.4 Auditor's Responsibility for the audit of financial statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Unreconciled Control Accounts or Records

Item	Amount as per the financial statements	Amount as per the corresponding Records	Difference	Comment of the Management	Recommendation
	Rs.	Rs.	Rs.		
Nation Building Tax	648,257,352	648,767,630	510,278	Action will be taken to show the correct values in the accounts	Prompt actions should be taken to make the corrections in the accounts.
Goods and Services Tax	648,257,352	645,093,252	3,164,100		

### 1.5.2 Accounting Deficiencies

#### Audit Observation

The expenditure on partition of the auditorium and administration expenditure amounting to Rs.255,256 had not been accounted relating to the year under review.

#### Comment of the Management

The corrections will be made in 2019

#### Recommendation

Correct amount should be adjusted in the accounts.

### 1.5.3 Lack of Evidence for Audit

Item	Amount	Evidence not made available	Comment of the Management	Recommendation
	Rs.			
Property Plant and Equipment	32,044,737	Fixed Assets Register	Action has been taken to prepare the fixed assets register	Fixed assets register should be prepared and updated in time.
Call Deposits	750,000	Balance	Will be furnished in	The balance

		confirmations	future	confirmation of the call deposits should be furnished as soon as possible.
Trade Debtors	39,977,316	Balance confirmation	Will be furnished in future	Action should be taken to submit the balance confirmations of the trade debtors to audit.

## 1.6 Accounts Receivable and Payables

### 1.6.1 Amounts Receivable

#### Audit Observation

The following receivable balances were existed in arrears for over 3 years.

- Receivable economic service charges Rs.2,698,338
- Salary advances Rs.15,000

#### Comment of the Management

Action has been taken to make the corrections in 2019.

#### Recommendation

Account receivables should be promptly examine and actions should be taken to recover them. The other balances should be adjusted in the accounts.

### 1.6.2 Amounts Payable

#### Audit Observation

The payable for over 3 years was as follows.

- Payables to the contractors Rs.626,050.

#### Comment of the Management

Action has been taken to make corrections in future.

#### Recommendation

After being obtained recommendations for the necessary deductions, action should be taken to make the payments to contractors.

### 1.7 Non-disclosure of related parties and related party transactions

#### Audit Observation

As per the Company accounts, the current account balance of the Urban Development Authority (UDA) amounted to Rs.218,401,530. However, according to the financial statements of the UDA, the corresponding balance amounted to Rs.217,312,856. Thus, a difference of Rs.1,088,674 was observed.

#### Comment of the Management

had not been commented.

#### Recommendation

Action should be taken to reconcile the differences.

## 1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comment of the Management	Recommendation
Section 7.4.5 of the Public Enterprises Circular No.PED/12 dated 02 June 2013	Action had not been taken to conduct Board of survey by appointing a committee of Board of survey.	had not been commented.	Annual Board of survey should be conducted according to the circular instructions.

## 2. Financial Review

### 2.1 Financial Results

The operation of the Company for the year under review had resulted a profit before tax of Rs.256.9 million and as compared with the corresponding profit of Rs.206.7 million for the preceding year indicating an improvement in the financial result by Rs.50.2 million. Decrease of administration expenditure by Rs.8.8 million and net financial expenses by 41.7 million were mainly attributed for this situation.

### 2.2 Trend Analysis of Major Income and Expenditure Items

Main Income	Value 31/12/2018	Value 31/12/2017	Difference	Percentage
	(Rs.)	(Rs.)	(Rs.)	(%)
Other operating income	196,480	2,404,849	2,208,369	92
Consultancy Services and Management income	4,549,511	7,081,965	2,532,454	36

Main Expenditure	Value 31/12/2018	Value 31/12/2017	Difference	Percentage
	(Rs.)	(Rs.)	(Rs.)	(%)
Building repairing and maintenance costs	2,629,135	1,240,326	1,388,809	112
Sanitary expenses	1,405,800	627,000	788,800	124
Medical Expenses	318,102	955,300	637,198	67

### Observations

- Compared to the year 2017, other operating income and consultancy and management services income had been increased by 92 per cent and 36 per cent respectively in the year 2018.
- Compared to the year 2017, 3 expenditure components had been increased by 50 per cent in the year 2018.

- (c) Building repairing and maintenance cost, sanitary expenditure and medical expenditure had been increased by ranging 67-124 per cents.

### 2.3 Ratio Analysis

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The current ratio of the preceding year was 4.21:1 and it was increased up to 7.53:1 during the year under review.

## 3. Operational Review

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### 3.1 Procurement Management

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#### Audit Observation

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According to section 7.3 of the Public Enterprises Circular No.PED/12 dated 2 June 2003, the guidelines of the Government Procurement Guideline should be followed by the state institutions without being changed and if other procedures and regulations are prepared according to the requirement of the institutions, the approvals of the Line Ministry and the General Treasury should be obtained. However, such approvals had not been obtained for procedures and regulations prepared by the Company.

#### Comment of the Management

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Comment had not been given

#### Recommendation

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Recommended to follow the circular instructions.

### 3.2 Human Resource Management

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#### Audit Observations

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- (i) Eight employees recruited to the Urban Development Authority (UDA) had been transferred to the Urban Investment and Development Company on secondment basis. Accordingly, it was observed that instead of being recruited the required employees to the UDA following the formal procedures, the required recruitments had been continuously made through the Company.
- (ii) According to section 9.2(d) of the Public Enterprises Circular No.PED/12 dated 02 June 2003, actions had not been taken to register the organization structure and the approved cadre of the Company at the Management Services Department.

#### Comment of the Management

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Comment had not been given.

#### Recommendation

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After being obtained the approval for the required cadre, only the approved cadre should be employed. The employees required to the UDA should not be recruited.

Action should be taken to obtain the approval for the required cadre of the Company.

### 3.3 Management of Motor vehicle file

#### Audit Observations

A motor vehicle of which belonging to the Land Cruiser category, costing Rs.17,965,769 and purchased in 2014, had been given to the use of the UDA Chairman since the date of purchase.

#### Comment of the Management

Comment had not been given.

#### Recommendation

As this motor vehicle is being used by the UDA, necessary action should be taken to recover not only the maintenance cost of the vehicle but also reasonable rent for the vehicle from the UDA.

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

#### Audit Observations

The main objective of the Company is to development of Projects in any region, building up them and implementation. However, a strategic plan indicating expected physical and financial targets had not been prepared. Further, the performance indicators for key functions of the Company had not been prepared. As a result, the performances of the Company for the year under review, could not be evaluated in audit.

#### Comment of the Management

Action has been taken to prepare in future.

#### Recommendation

A long term strategic plan relating to the Company should be prepared and that plan should be updated in every year.

### 4.2 Internal Audit

#### Audit Observations

An internal audit had not been carried out by the Company and the reports had not been issued.

#### Comment of the Management

An internal audit had not been carried out.

#### Recommendation

An internal audit should be carried out either through the internal audit division of the UDA.

### 4.3 Audit Committee

#### Audit Observations

An Audit Committee had not been held for the year under review.

#### Comment of the Management

Audit Committees had not been conducted.

#### Recommendation

Audit Committees should be conducted.

#### 4.4 Budgetary Control

##### Audit Observations

According to paragraph 5.2.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Annual Budget should be approved before 3 months of the budgeted year. However, the annual bidget for the year under review had not been approved.

##### Comment of the Management

Comments had not been given

##### Recommendation

Action should be taken to prepare the annual budget and get the approval thereon.