Urban Investment and Development Pvt Ltd Company - 2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Urban Investment and Development Company "Company" for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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

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

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 Audit Scope

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 scepticism 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

	Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	According to the Sri Lanka Accounting Standard No. 19, the company had not made any provision for the future gratuity to the company employees as per the Section 5(1) of the Payment of Gratuity Act No. 12 of 1983.	The action has been taken to make provision for gratuity in the accounts from year 2023.	The annual allocations should be made for gratuities on behalf of the employees in the company.
(b)	According to Sri Lanka Accounting Standard No. 38, the value of the building management software which was developed for the company's operations, had not been recognized and accounted in separately as an intangible asset and it had been included in the building value.	Identification of the related cost was difficult. This cost is being tried to identify.	According to Sri Lanka Accounting Standards, intangible assets should be recognized separately.
(c)	According to the Section 7 of Sri Lanka Accounting Standard 16, if not receive future economic benefits to entity, those items should not be recognized as assets of the entity. But contrary to that, it was observed that 05 items of assets worth Rs.4.96 million purchased by the company during the year under review were included as assets of the	The hand tractor, the trailer and the bowser has been decided to sell & through a tender call and it was decided to give a rental fee by the Urban Development Authority for the tafe tractor and the	The assets should be correctly identified in accordance with Sri Lankan accounting standards.

company under Property Plant and Equipment but those assets are not being used by the company and are being used by the Urban Development Authority. For these assets, the company had allocated Rs.826,000 as the depreciation in the year under review.	lawn mower.	

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The property, plant and equipment and intangible assets which are being used by the company which were cost of Rs 21.90 million, though fully depreciated, the action had not been taken to revalue respectively as per the Sri Lanka Accounting Standard No. 16 and the Sri Lanka Accounting Standard No. 38 or the action had not been taken to revalued the useful life as per the Sri Lanka Accounting Standard no 08.	The actions are being made to get a valuation report by a chartered valuer after classifying and identifying the relevant values and relevant assets.	The action should be taken regarding the fully depreciated assets in accordance with Sri Lankan Accounting Standards.
(b)	With effect from March 31 of the year under review, the value of the investment property of the company had been valued by a qualified valuer which it is fair value of Rs. 10,473.7 million and according to that report the increase in fair value was Rs. 7,427.48 million. However, the company had allocated depreciation on cost basis for the entire year while allocating depreciation. Further, the Company had not disclosed the time frame over which the fair value is calculated in the notes of the financial statements. Also, the action had not taken to the identify the deferred tax liability on this increase in fair value.	The value is correctly shown in the accounts	As the recognition of fair value has happened on March 31, the calculation of relevant depreciation should be corrected and according to Accounting Standard No. 12 deferred tax liability should be recognized on the increase in fair value.
(c)	At the end of the year under review, the balance of Rs.806.34 million shown under non-current liabilities in the company's statement of financial position is shown in the balance of the current account with the Urban Development Authority. The loan amount obtained for the construction of the Sethsiripaya Phase II building is shown in the financial statements of the Urban Development Authority, but the installments and interest payments are made by the funds	It will be shown in the accounts from the year 2023.	The transactions between the company and the Urban Development Authority should be shown separately and the bank loan liability should be classified as current and non-current.

provided by the company. No disclosures had made in the financial statements in this regard and loan and interest payment agreement had not entered into. Furthermore, Rs.323.39 million, which were to be settled within 12 months from the date of the balance sheet, had not identified as current liabilities and the remaining Rs. 212 million as non-current liabilities.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
As at the last date of the year under review, the rental income receivable from the Government Institutions which are using the “Setsiripaya Stage - II” building of the Company, the trade debtor balance was Rs.142.71 million and out of which Rs.41.62 million was existed overdue for more than 03 months.	Comments had not been given	Debtor balances should be collected promptly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Companies Act No. 07 of 2007 Section 133(1).	Annual General Meetings had not been held since the date of incorporation of the company.	Necessary steps will be taken to held the Annual General Meeting.	Should be comply with the sections of the company act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 534,748,997 and the corresponding profit in the preceding year amounted to Rs. 534,433,968. Therefore, an minor improvement amounting to Rs.315,029 of the financial result was observed. The reasons for the improvement are increase of the operating income such as rental income and service income, more than the increase in the main operating expenses such as electricity cost, machine repair cost and fuel cost.

2.2 Trend Analysis of major Income and Expenditure items

Expenditure/Income	2022 Rs.	2021 Rs.	Difference Rs.	Percentage of Difference %
Rental income	466,361,096	448,241,745	18,119,351	4
Service income	230,155,591	223,552,902	6,602,689	3
Interest income on treasury bills	3,756,418	1,204,402	2,552,016	212
Electricity cost	16,713,036	9,782,966	6,930,070	70
Machine repair	12,046,527	8,428,029	3,618,498	43
Fuel costs	5,130,560	732,600	4,397,960	600
Social Security Contribution Tax	4,436,687	-	4,436,687	100
Interest expense	119,559,683	76,900,967	42,658,716	55

The following observations are made.

i. The increase in the percentage of interest paid by the government compared to the corresponding year had directly affected the increase in interest income on treasury bills. Also, the increase in market loan interest rates had mainly affected the increase in interest expense.

ii. Fuel costs had been increased comparing with the previous year for that the increase in fuel charges and the interruption of electricity supply had led to the need to use fuel to operate generators for a continuous electricity supply.

2.3 Ratio Analysis

Ratio	2022	2021	Difference
Net Profit Ratio-Percentage	53.81	61.99	(8.18)
Earnings on total assets-percentage	4.62	13.79	(9.17)
Debt equity ratio-Percentage	4.85	32.61	(27.76)
Interest coverage ratio-Times	4.25	6.39	(1.54)

The following observations are made.

i. The decrease of the net profit ratio compared to the corresponding year that was mainly due to the increase in interest expenses, fuel and electricity expenses, as well as the increase in maintenance expenses.

ii. As a result of the authority's investment properties had been shown at fair value in the year under review, compared to the corresponding year of 2021 the earning on total assets ratio and debt equity ratio had been decreased.

iii. Compared to the corresponding year the interest coverage ratio had been decreased, due to the increase of interest expense.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
According to the company's Articles of Association, the objective of the company is to lead, build and develop development projects in any area, but any action had not been taken to achieve this objective according to the company's comprehensive plan for the period 2021-2024. The company had operated only to collect annual rent and service income from the building constructed and to maintain the building.	Necessary actions will be taken in the future to fulfill the company's broad objectives.	The close attention should be paid to accomplishing the company's corporate objectives

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
No procurement committees had been appointed for the company and the procurement related to the company's purchases had been done by the major or minor procurement committee of the Urban Development Authority.	The decision-making and execution powers for the activities of the sub companies are vested with the parent company as per the Public Enterprise Circular.	Since the company is a separate unit, arrangements should be made to establish procurement committees for the company.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
According to paragraph 5 (2) of the Public Finance Circular No. 01/2014 dated February 11, 2014, an action plan including activities that expected to be implemented in the following year had not been prepared based on the company's corporate plan/business plan.	The actions are being taken to prepare the company's corporate plan correctly for the year 2023.	The corporate plan should be prepared as per circular instructions.