

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Urban Investment and Development (pvt) Company ("Company") for the year ended 31 December 2024 comprising the statement of financial positions as at 31 December 2024 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 material 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 2024, 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 (Auditor's Responsibilities for the Audit of the Financial Statements)

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 Audit Observations on the preparation of Financial Statements

1.5.1 Non – Compliance with Sri Lanka Accounting Standards

Non-Compliance	Management Comments	Recommendation
Although paragraph 104 of Sri Lanka Accounting Standard No.38 relating to intangible assets requires that the amortization, period and method of intangible assets with a finite useful life shall be reviewed at least at each financial year ended. Due to failure to do so, the intangible assets that were still in use at a cost of Rs.2 million had been fully depreciated were included in the Statement of Financial Position with a zero carrying amount from the year 2020.	Intangible assets will be reviewed in accordance with the standard and revalued and included in the 2025 Statement of Financial Position.	According to Accounting Standard, the amortization, period and method of intangible assets should be reviewed at the end of each financial year and the correct values should be reflected in the Financial Statements.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Although the annual tax liability on operating income was stated as Rs.104.98 million in Note No 23 of the Financial Statements, the audit calculated this liability	The income tax calculation had been done on the income tax liability prepared for payment on 15 February	Income tax liability should be accounted for and paid correctly.

to be Rs. 106.46 million. Accordingly, the annual tax expense in the statement of comprehensive income was understated by Rs. 1.48 million.

2025. However, the payment will be made before 30 September 2025 as per the audited accounts and accordingly, the expenditure related to the under provision of tax will be corrected in the accounts of the year 2025.

1.5.3 Unreconciled Control Accounts or Records

Item	Amount as per Financial Statement Rs. Million	Amount as per Corresponding Record Rs. Million	Difference Rs. Million	Management Comments	Recommendation
(a) Interest income on Treasury bills	19.446	18.982	0.464	Appropriate corrective measures will be implemented in 2025, considering the reasons for this difference.	The reasons for unreconciled should be identify and necessary corrections should be made promptly.
(b) Lease Debtors	163.76	166.51	2.75	This unreconciled is due to the fact that the accounting system had not adjust the debtor schedules when the transaction entered into the ledger through the journal. Accordingly, corrections to the schedules are currently being made.	The reason for unreconciled should be identified and necessary corrections should be made promptly.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs. Million	Evidence not made available	Management Comment	Recommendation
Payable other accrued expenses	7.14	Schedules, source document and age analysis.	Reconciliation statements are being prepared regarding the accrued expenses accounts and the over and under provisions in those accounts to be corrected. The relevant corrections have been identified and accordingly the relevant schedule will be prepared and provided in the future.	Schedules and age analysis regarding accrued expenses should be submitted to the audit.

1.6 Payables

Audit Issue	Management Comment	Recommendation
According to the creditors age analysis, the value of bills payable to contractor and payable to retention over 5 years was Rs.0.6 million and Rs.1.9 million respectively and the necessary actions had not been taken to settle those values.	The amount of bills payable to contractors and retention bills payable over 5 years have been submitted for approval by the Audit and Management Committee. Once the relevant approval is received, corrections will be made in the 2025 accounts.	Actions should be taken to settle the outstanding amounts.

1.7 Non – Compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc	Non – Compliance	Management Comment	Recommendation
Paragraph 5.3 of the Operational Manual introduced by Public Enterprises Circular No.01/2021 dated 16 November 2021.	Although the company had earned a profit after tax of Rs.1,308 million during the year under review, It had not been taken action to distribute the minimum dividend of 30 percent of the profit after tax to the shareholders in accordance with the Companies Act No 07 of 2007.	The company will take the necessary actions to distribute dividends based on the profit earned during the 2025 financial year.	Dividends should be distributed in accordance with the referenced circular and the Companies Act.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a profit of Rs. 1,418,904,742 and the corresponding profit in the preceding year amounted to Rs. 2,105,068,141. Therefore, a deterioration amounting to Rs. 686,163,399 of the financial result was observed. The reasons for the deterioration are mainly due to a decrease in the profit from the revaluation of investment properties by Rs. 869,300,000 compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Although the primary objective of the company is to develop, construct and implement any development project in any area according to the Articles of Association of the Urban Investment and Development Company, the only development project that the company had undertaken for nearly 19 years, from the date of its establishment on 3 August 2006, was the development, construction and operation of the 13-storey Sethsiripaya building and also the company's corporate plan for the period 2021 – 2024 did not include other comprehensive development activities. Hence, the company had not acted in accordance with the Articles of Association to achieve its basic objectives.	Necessary action will be taken in the coming years to achieve broad objectives of the company.	The company should act as per its Article of Association to achieve the primary objectives.
(b) Four tractors and trailers owned by the company, worth Rs. 4.96 million, were used to the duties of the Urban Development Authority without proper transfer.	Although these assets had been provided for use our parent company Urban Development Authority, legal ownership of these assets remains with the company. These assets have been accounted as non-current assets under motor vehicles.	The assets of the company should not be transferred to other institution without legal transfer.

3.2 Human Resource Management

Audit Issue	Management Comment	Recommendation
There was no approved scheme of recruitments and approved carder or staff succession plan for the company as per the paragraphs 3.2(i) and 3.4 of the Operations Manual introduced by the Public Enterprises Circular No 01/2021 dated 16 November 2021. The staff of the company consisted of 03 permanent officers and 07 officers attached to the Urban Development Authority. Also allowances of Rs. 1.06 million had been paid to 57 officers of the Urban Development for carrying out of the duties of the company during the year under review.	The employees already employed have been recruited in accordance with the approved Scheme of Recruitment of the Urban Development Authority and the approval of the Board of Directors of the company has been obtained. Also, since operational activities are carried out by a limited staff and the services of staff from the Urban Development Authority have been obtained for this purpose and this allowance has been paid for it.	A Scheme of Recruitment, carder and staff succession plan should be prepared for the company and necessary approvals should be obtained without delay.

4. Accountability and Good Governance

4.1 Tabling annual reports in the parliament

Audit Issue	Management Comment	Recommendation
Although, the annual report including audited financial statements should be tabled in parliament within 05 months end of the financial year as per the paragraph 6.6 of the Operations Manual introduced by the state enterprise circular No. 01/2021 dated 16 November 2021, the annual reports had not been tabled in parliament since the year 2006 when this company was established.	The annual report was prepared in 2023 and presented to the Board of Directors Meeting, but was not tabled in parliament. Accordingly, action will be taken to amend and submit it in the future.	Necessary steps should be taken to table the annual reports in the parliament in accordance with the circular referred to.

4.2 Corporate Plan, Action Plan and Annual Budget

Audit Issue	Management Comments	Recommendation
Although the Corporate Plan, Action Plan for the year under review and annual budget of the company, should be submitted to the Department of Public Enterprise and the Department of National Budget through the secretary to the line ministry, as per the paragraph 2.3 of the Governance Guidelines introduced by the public Enterprises Circular No. 01/2021 dated 16 November 2021, the company had not acted in accordance with the said provisions.	Necessary steps are being taken identify the activities expected for the 2025-2028 corporate plan and to submit the report to the Department of Public Enterprises. The action plan for the year 2025 will be prepared in the coming year and the budget for the year 2025 has been prepared. The report will be sent to the Department of Public Enterprises by the Secretary.	The corporate plan, Action Plan and annual budget of the company should be prepared in a timely manner and necessary approvals should be obtained.