

Urban Investment and Development Company – 2017

The audit of the financial statements of the Urban Investment and Development Company (“Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information 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. My observations on the operations of the Company for the year under review which I consider should be presented to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management’s Responsibility on the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium- sized Entities (SLFRS for SMEs) and for such internal control as management determines is necessary to enable the preparation of financial statements whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement including the assessment of the risk of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

2. Financial Statements

2.1 Opinion

The financial statements of the Urban Investment and Development Company give a true and fair view of the financial position as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

2.1.1 Report on Other Legal and Regulatory Requirement

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b)
 - I have obtained all the information and explanations that required for the audit and as far as appears from my examinations, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirement of Section 151 and 153 of the Companies Act, No. 07 of 2007.

2.2 Related Party Transactions

The following observations are made.

- (a) According accounts of the Company, the current account balance of the Urban Development Authority amounted to Rs.272,454,351. Nevertheless, according to the financial statements of the Urban Development Authority, related current account balance of the Company amounted Rs.273,723,429. Thus, a difference of Rs.1,269,078 was observed.
- (b) Even though according to the financial statements of the Company, the payable balance to the Urban Development Authority amounted to Rs.2,930,045,861 and according to the financial statements of the Urban Development Authority, receivable balance from the Company amounted to Rs.2,930,576,692. Thus, a difference of Rs.530,831 was observed.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

| Reference to Laws, Rules and Regulations | Non-compliance |
|---|--|
| ----- | ----- |
| (a) Public Enterprises Circular No.PED/12 dated 02 June 2003 (i) Section 7.3 | The Public Enterprises should follow the instructions given in the Government Procurement Guideline. If other procedures and rules decided to be prepared according to the requirement of the Institute, the approval of the Line Ministry and the Treasury should be obtained thereon. However, the approval for the procedures and rules prepared by the company had not been obtained so. |

- (ii) Section 7.4.5 Action had not been taken to conduct a board of survey after being appointed a survey committee.
- (iii) Section 9.2 (d) Actions had not been taken to register the organization chart and approved cadre of the Company in the Department of Management services.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the company for the year ended 31 December 2017 had resulted in a profit before tax of Rs.206.7 million as compared with the profit before tax of Rs.201.7 million for the preceding year, thus profit before tax of the company had increased by Rs.5 million. Although the interest expenditure for the year under review had increased by Rs.30.5 million, the increase of rent income and service fee income by Rs.24 million and other operational income by Rs.10.7 million had mainly attributed to this improvement in the financial result.

3.2 Analytical Review

- (a) As compared with the preceding year, the rent income and service fee income of the company had increased by Rs.24 million and other operating income had also increased by Rs.10.7 million. As a result the income of the company had increased by Rs.35.1 million. Hence, the gross profit ratio of the year under review had increased to 75.85 per cent from 74.09 per cent, in the preceding year. However, as compared with the preceding year, the interest expenses of the company for the year under review had increased by Rs.30.5 million consequently, net profit ratio of 32.86 per cent, for the preceding year, had decreased to 31.86 per cent in the year under review.
- (b) The current ratio of the company for the preceding year was 4.36:1 and this was insignificantly decreased to 4.21:1 in the year under review. However, the company had failed to maintain the current ratio by optimal level.

4. Operating Review

4.1 Performance

A vision and a mission for the company had not been prepared and the primary objective of the company is to develop, construct and implement of any development project in any area. However, an Action Plan had not been prepared indicating the expected physical and financial targets to be achieved. Further, performance indicators for the main functions of the company had not been prepared by the management. Hence, the performance of the company for the year under review could not be evaluated in audit.

4.2 Assets Management

A vehicle, Land cruiser category, the cost of Rs.17,965,769 had been given to the Chairman of the Urban Development Authority for his usage from the purchasing year of 2014.

4.3 Human Resource Management

Following observations are made.

Eight officers and other staff members recruited to the Urban Development Authority had been seconded to the Urban Investment Development Company. In secondary basis 79 Assistant Planning Officers recruited to the Urban Investment Development Company had also been assigned to the Urban Development Authority on assignment basis. Thus, a procedure to make the recruitments through the Urban Investment Development Company had been followed in order to make recruitment to the Urban Development Authority.

5. Accountability and Good Governance

5.1 Presenting of the financial statements

In terms of the Public Enterprises Circular No,PED/12 dated 02 June 2003, the financial statements of the Company for the year 2017 should be furnished to the Auditor General before 28 February 2018. However, the financial statements had been furnished to the Auditor General on 17 July 2018.

5.2 Action Plan

An Action Plan had not been prepared for the year under review.

5.3 Annual Budget

Even though in terms of paragraph 5.2.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 the annual budget should be approved before 03 months of the respective year, action had not been taken to approve the budget of the year under review.

6. Systems and Controls weaknesses

The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of controls.

| Area Controls | Observation |
|--------------------------|--|
| ----- | ----- |
| (a) Laws and Regulations | Operations had been conducted without being followed Financial Regulations and Public Enterprises Circulars. |
| (b) Debtors Control | Considerable delays were existed in recovering of |

debtors and other receivables.

(c) Human Resources Management

The requirements had not been completed as per the Public Enterprises Circulars.