

Rathnapura Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rathnapura Municipal Council for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, statement of cash flow, significant accounting policies and the summary of 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 read in conjunction with the section 219 of the Municipal Council Ordinance (Authority 252) and 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 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Rathnapura Municipal Council as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 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 Responsibility for the Audit of 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 Generally Accepted Accounting Practices 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.

Those charged with governance are responsible for overseeing the financial reporting process of the Municipal Council

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

1.4 Audit Scope (Auditor's Responsibility for the Audit of 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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 Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council;
- Whether the Municipal Council has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Municipal Council is corresponded with financial statements of the previous year.
- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The capital income related to construction industries for the year under review of Rs. 4,190,211 had been under accounted.	That will be adjusted by the accounts of the year 2022.	Should be accounted in accurately.
(b) The allocation for creditors related to construction industries for the year under review of Rs. 1,280,000 had been under accounted.		
(c) The rental income for the year under review in Dmuwawatha gem shopping complex of Rs. 930,237 had been under accounted.		
(d) The chargeable entrance fee of Rs. 968,900 from Sri Lanka Transport Board buses had been under accounted.		

1.6.2 Unreconciled Control Accounts or Reports

Audit Observation -----	Comments of the Council -----	Recommendation -----
Although the balance of the employees' loan account was Rs. 58,103,614 as per the financial statements of the year under review, it was observed a difference of Rs. 12,822,640 due to the balance was Rs. 45,280,974 according to the employees' loan schedule.	That will be corrected in future.	The balances in the financial statements should be compared with the balances in the supportive documents.

1.7 Non-compliance

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

Non-compliance with Laws, Rules, Regulations and management decisions are as given below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the council	Recommendation
Financial Regulation 571(2) of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	The total expired deposit of Rs. 20,299,136 of the general market deposit, public market deposit, tender deposit, miscellaneous deposit and rental deposit of the commercial land from the year 2003 to the year 2019 had not been acted in accordance with the referred regulations.	Will be acted in accordance with Financial Regulations 571 (2) in future.	Should be acted in accordance with Financial Regulations.

2. Financial Review

2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2021 was Rs. 61,809,296 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 89,516,437.

2.2 Revenue Administration

2.2.2 Performance of the Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Assessment and Taxes		
The shortage of Rs. 39,481,893 regarding the 22,433 assessment units had been failed to recover as the shortage of Rs. 2,501,156 related to 450 government institutions and Rs. 36,980,737 related to 21,983 personal units at the end of the year under review.	The 25 years old software assessment division is not capable of obtaining time analysis, Taxes could not be collected properly due to the impact of the Corona epidemic.	Arrangements should be made to collect the revenue due to the council without delay.
(b) Rentals		

Although there was a requirement to enter to the lease agreement after paying the minimum grant amount while leasing the shops in the Demuvawatha gem market stall complex, no formal agreement was signed for 10 stalls. According to agreement dated 18 August 2016, the second party shall pay 50 percent of the minimum grant amount regularized by the council at once and even though the lessee had agreed to pay the remaining 50 percent in installments within one year i.e. on or before 31 October 2016, the minimum grant money of Rs. 7,653,372 for 10 shops had been failed to recover by 31 December 2021.

A time frame has been prepared and informed by letters as that the shops have not paid the minimum grant money should be paid monthly.

Arrangements should be made to enter into formal agreements with lessees and to collect the revenue to be charged to the council without delay.

3. **Operational Review**

The following are the facts observed regarding the performance of the council's duties of regularizing and controlling the matters of public health, public utility services and public roads and the welfare, convenience and welfare of the people under section 4 of the Municipal Council Ordinance.

Deficiencies in Contract Administration

Audit Observation -----	Comments of the Council -----	Recommendation -----
The audit conducted a physical inspection on 28 October 2021 regarding the renovation industry of the Municipal Council (Blue Sapphire" meeting hall which was completed on 20 April 2021 and the total of Rs. 160,171 had been paid as Rs. 62,674 as the provision and installation of the ceiling which was done under the subject number 05 of the estimate, Rs. 14,761 for uncompleted work under SSR-01, Rs. 32,459 under uncompleted work of SSR-04 and Rs. 50,277 for supply and laying of tiles under subject No. 02 of estimate.	The price analysis for gypsum sheet ceiling is 57.3 square meter, The ceiling area is 73.55 cubic meters multiplied by the unit price of Rs. 3,857.42 and payed.	Action should be made to recharge the excess payment.