

Kadugannawa Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kadugannawa Urban Council including the financial statements for the year ended 31 December 2020 comprising the Balance sheet as at 31 December 2020, Income and Expenditure Account, and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 and Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255). 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 Kadugannawa Urban Council as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 Generally Accepted Accounting Principles, 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 Urban council's financial reporting process.

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

1.4 Audit Scope (Responsibility of the Auditor 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 exercised 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 its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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 Urban council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban council;
- Whether it has performed according to its powers, functions and duties; and

- Whether the resources of the Urban council 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.

- Financial Statements of the Urban council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018 (Except for the observations recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Even though Rs.250,000 expenses has been done to develop the Mangoswatte land in the year under review action has not been taken to capitalize it.	As payments are done in the year 2021 notice was made to capitalize there.	Action should be taken to capitalize the amount spent to develop the property.
(b) There was 08 court cases against the Council as at 31 December the year under review relating to unauthorized constructions, not paying shop rent and information was not disclosed relating to this in the accounts.	Court cases will be disclosed when preparing financial statements for the year 2021.	Points that have to be disclosed with the financial statements should be disclosed.
(c) Action was not taken to identify and account court fine charges for the month of December and stamp duties relating to last 06 months of the year under review.	Only the amount that had been received during the year was accounted because forecasting cannot be done.	Action should be taken to account by inquiring from the institutions who collect revenue on behalf of the Council.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2020, amounted to Rs.1,367,771 as compared with the corresponding amount in excess of revenue over recurrent expenditure for the proceeding year amounted to Rs.458,299.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Rates -----		
(i) Revenue of Rs.2,642,028 that should be received for the Council was lost due to not collecting taxes by estimating the new constructions in the area.	Actions has been taken to collect without delay by informing to pay the rates in a timely manner.	Actions should be taken to estimate the new constructions and collect taxes.
(ii) Even though the rates should be estimated once in 5 years the Council area was collected based on the year 2012 estimated value.	Requests have been made for a new estimate from Estimation Department in the year 2016 before passing 05 years for the estimation.	Action should be taken to estimate rates once in 5 years.
(b) Other Taxes -----		
Even though the lease agreement of Kadugannawa In has been abolished from 30 April 2019, action has not been taken to collect an arrears amount of Rs.293,629 that is due from the leaseholders and a charge of Rs.8,100 for connecting again the water supply that was disconnected.	Action is been taken by the supervisor of Central Province Urban Development Authority to collect the arrears amounts for the Urban Council.	Action should be taken to collect the arrears tax due and water bill charges.

2.2.2 Shop Rent

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) There was an arrears shop rent balance of Rs.739,094 as at the end of year under review and in that there was long – term arrears balance of Rs.290,469 from 17 shops and arrears balance of Rs.151,369 that was there from years 2007 to 2013 from 4 shop stalls in the old market complex.	Answers were not given.	Collection of arrears shop rent should be made quick.

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| (b) | Action was not taken still to be make agreement for No.09 stall. | Relevant action was taken to make agreement for No.09 stall. | Action should be taken to make agreement relevant for leasing the stall. |
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3. Operating Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Section 4 of the Urban Councils Ordinance are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) Even though when leasing out lands the lease amount should be amended from 05 years to 05 years or amend the lease amount by increasing estimated lease amount by 50 percent in the area of Urban Council, the lease amount was amended by adding 10 percent for the current lease rent when estimating the annual lease rent for 22 land parts.	Action will be taken to direct for estimation and collect lease after measuring and separating lands.	Action should be taken to amend the lease amount from 5 years to 5 years or to increase by 50 percent when leasing out lands.
(b) The receivable debtor balance was Rs.4,519,896 and from that the total balances of accounts which were there for a period of 1 to 3 years was Rs.735,636 and balances which exceed the period of 3 years amounted to Rs.373,226.	Action will be taken to settle this balance.	Action should be taken to collect the receivable account balances.
(c) The balances of 5 payable accounts amounted to Rs.26,625,762 and from that the total balances of accounts which were there for a period of 1 to 3 years was Rs.3,461,814 and balances which exceed the period of 3 years amounted to Rs.638,258.	Action will be to settle the payable balances.	Action should be taken to settle the payable balances.

3.2 Operational Inefficiencies

Audit Observation

Comments of the Council

Recommendation

Action was not taken to be in agreement even until 30 November 2019 even though 18 shop stall of market complex has been given to businessman on lease basis?

Coming to an agreement was delayed due to shop owners not accepting the estimated amount of market complex until a while.

Action should be taken to come to an agreement based on the new estimation.

3.3 Not confirming the safety of Assets

Audit Observation

Comments of the Council

Recommendation

(a) Action was not taken relating to 4 stalls at the No.575 building in the Urban Council area, constructions that has been done in front of the public playground and the unauthorized constructions that has been done behind Deputy Chairman's house.

Action will be taken to take needed advice and legal steps if new constructions are done in the building.

The needed action should be taken according to rules and regulations relating to unauthorized constructions.

(b) Action was taken to estimate Rs.921,808,600 worth property as Rs.58,450,000 by the Council revenue inspector instead of estimating the present market value of land and building owned by the Council that has been in a low value from many years.

Action will be taken to estimate from the Government Estimation Department and account all assets of the Council in the future.

Action should be taken to estimate properly the value of properties owned by the council and account it.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation

Comments of the Council

Recommendation

(a) Rs.9,367,144 worth two vehicles owned by the Council was not used and have been idle.

Vehicles will be repaired and used to avoid inconvenience for duties of the officers.

Action should be taken to repair or auction and not keeping the vehicles owned by the Council idle.

(b) Even though Rs.3,376,337 lease amount was paid for Railway Department for the land in the old Urban Council building situated

All the arrears lease amounts were paid and finished due to the need to renew the lease agreement with Railway

Action should be taken to collect revenue properly from the properties acquired from

in Colombo Kandy road, that building was not used for any effective purpose and was kept idle.

Department and also due to land was needed for the Council.

paying lease amounts.

3.5 Defects in of Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) A side wall was constructed for safety of a private house using Rs.145,714 public funds by showing to avoid the damage caused to the road due to widening the yard of a private house.	It was decided that there is a need to construct a retaining wall to reduce the insecurity of that place.	Constructions should not be done by using Council funds for the safety of private property.
(b) Kadugannawa Church Road safety wall built in the year 2020 by spending Rs.849,831 was not built in a shift.	Advice was given by examining time to time when building the wall and it was observed by the technical officers that wall construction is done in the prescribed manner when examined in every event.	It should be confirmed that constructions are with proper technology and standards when spending council funds.
(c) The long – term durability of the road was not confirmed due to water flowing across the road and drain made only for half of the road built by spending Rs.476,538 for the development of Athupannawatta road.	Action will be taken to correct it when extending the drainage system due to that there is a entrance road for an old house even before constructing the road.	Payments should be done according to technology and measurement reports when paying for constructions.