

Nawalapitiya Urban Council – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nawalapitiya 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 Nawalapitiya 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.

- (a) 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.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018 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) Rs.358,782 valued 07 mixed deposit balances and Rs.579,000 valued 03 tender deposits was not accounted under the balance of general deposits in the financial statements.	Subject officer was unable to account due to as oversight.	Correction should be done when making financial statements for the next year.
(b) Rs.801,209 valued 13 other creditor balances as at the end of the year under review was not accounted.	Action will be taken to match in the next year accounts.	Correction should be done when making financial statements for the next year.
(c) Rs.4,388,184 worth 09 assets that was recorded in the fixed asset document was not recorded in the financial statements.	Action will be taken to examine and correct.	Correction should be done when making financial statements for the next year.
(d) There were 05 court cases filed against the Council and it was not revealed relating to this in financial statements.	Action will be taken in future according to that.	Correction should be done when making financial statements for the next year.
(e) It was accounted only under the general administration programme even though it should be accounted under each programme for a revenue of Rs.68,042,103 which was received for salary reimbursement.	It is planned to account under each programme in the next year.	Correction should be done when making financial statements for the next year.

1.6.2 Un reconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
----- There was a difference of Rs.10,400 due to showing Rs.3,497,732 in the accounts even though it was Rs.3,487,332 according to source documents for the value of vehicle rent which was included in the debtors balance that amounted Rs.17,291,938.	----- Action will be taken to correct.	----- Correction should be done when making financial statements for the next year.

1.6.3 Lack of Written Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
----- The source accounts were not presented that was needed to confirm balances relating to 05 inventory items worth Rs.1,899,358 that was included in the financial statements.	----- It will presented in the future after examining.	----- All the information needed for the audit should be presented.

1.7 Non - compliances

1.7.1 Non – compliance with Laws, Rules, Regulations and Management Decisions

Occasions of Non – complaine to rules, regulations and Management decisions are as follows.

Refer to Laws, Rules, Regulations and Management decisions	Comments of the Council	Recommendation
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(a) Stamp duty Act No.12 of 2006	On 9 occasions Rs.11,525 worth stamp duties was stored in the general deposit account without transferring to Commissioner General of Inland Revenue.	Action will be taken in future according to it. Action should be taken according to the terms of Act.

(b) Circular of the
Commissioner of
Local Government

Circular No.2016/03
dated 17 March
2016

(i) Section 3

Action was not taken to estimate the shop stall relating for 04 shopping complex owned by Council according to the circular. Estimate was not given still even though estimation department was continuously informed to give the new estimate.

Action should be taken according to the circular.

(ii) Section 51

Action was not taken according to the Circular to collect the cash of Rs.1,338,181 that was receivable from 03 stalls. At the moment the part of the arrears has been collected from the stall No.50 and time exceptions has been asked to pay the balance to pay the balance arrears due to prevailing covid pandemic and action was taken to get the approval of general assembly for this.

Action should be taken according to the circular.

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.36,536,501 as compared with the corresponding amount in excess of revenue over recurrent expenditure for the proceeding year amounted to Rs.31,259,441.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
There was an arrears rates of Rs.17,906,692 relating to year under	It is planned to take future steps for the collect the	Actions should be taken to collect the

<p>review. In that there was Rs.906,697 arrears rates that is receivable from government institutions and action has not been taken to collect that money.</p>	<p>money that is receivable.</p>	<p>arrears income without delay.</p>
<p>(b) Shop Rent ----- Only Rs.71,240 which 02 percent from the overall arrears has been collected from the balance arrears shop rent of Rs.3,130,748 as at beginning of the year under review.</p>	<p>It is planned to take action by making plans for the future.</p>	<p>Actions should be taken to collect the arrears income without delay.</p>
<p>(c) Other Income -----</p>		
<p>(i) Only Rs.132,842 which is 15 percent has been collected during the year from the arrears water charges of Rs.875,892 as at the beginning of the year under review and the arrears water charges at the end of the year was Rs.885,275.</p>	<p>Rs.37,921 was collected also it is planned to write off the money that cannot be collected with the approval of subject related minister and action has been taken to disconnect if the arrears amount is not paid for current water services.</p>	<p>Actions should be taken to collect the arrears income without delay.</p>
<p>(ii) The arrears land tax revenue as at the end of year under review was Rs.605,170 and in it Rs.185,239 was between 1 to 3 years and 232,455 exceed 3 years.</p>	<p>It is planned to take action by making plans for the future.</p>	<p>Actions should be taken to collect the arrears income without delay.</p>
<p>(iii) Only Rs.375,617 which is 15 percent from beginning arrears has been collected during the year under review from the arrears motor vehicle balance of Rs.2,568,399 as at the beginning of the year and that is to be collected as at 31 December 2020 was Rs.1,508,020.</p>	<p>It is planned to take action by making plans for the future.</p>	<p>Actions should be taken to collect the arrears income without delay.</p>
<p>(iv) Only revenue of Rs.43,784 which is 0.12 percent has been collected during the year form the arrears balance of Rs.35,038,854 which was receivable as at the beginning of the year under review from super market complex and arrears shop rent at the end of the year was Rs.54,409,970.</p>	<p>There is court case going for the amendment of new shop rent because of that there is a difficulty to collect shop rent and arrears until the court case is finished.</p>	<p>Actions should be taken to collect the arrears income without delay.</p>

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
(a) Rs.1,847,700 has been spent to appear as the defendant from Rs.1,872,000 that was paid for legal fees by the Council as at the end of year under review.	Lawyer assistance was essential relating to the cases filed. So these legal fees had to be borne.	Action should be taken complied with rules, regulation in a non – interfering manner in court proceedings.
(b) Rs.7,256,995 related for a period between 02 to 10 years was included in the other revenue debtor balance of Rs.17,291,938 as at 31 December the year under review.	Action was not taken to collect the revenue due to Covid pandemic situation that was in year 2020.	Action should be taken to collect without delay.
(c) Development projects creditors balance as at 31 December the year under review was Rs.5,578,120 and the creditors balance which is older than 03 years included in it was Rs.3,097,537.	Payment has been completed for Rs.2,366,247 and Rs.1,073,458 has to be paid. Payment of Rs.2,232,523 has been made as the final payment.	Action should be taken to settle without delay.