

## **Wattegama Urban Council - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Wattegama 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 for the year 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 Wattegama 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**

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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**

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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)**

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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

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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 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

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comments of the Council	Recommendation
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(a) Receivable fixed deposit interest was over stated by Rs.75,485	Action will be taken to correct in the year 2021.	Correction should be done when preparing financial statements of the next year.
(b) Payable value of 03 development projects for development project creditors was overstated by Rs.773,506 and understated by Rs.84,580 of 02 development projects relating to the year under review.	Action will be taken to correct by financial statements of year 2021.	Correction should be done when preparing financial statements of the next year.
(c) Rs.423,990 worth 04 vehicles were accounted that didn't physically exist.	Action will be taken according to the report that will be given by the committee which was appointed for this purpose.	Correction should be done when preparing financial statements of the next year.
(d) The total balance of employee loans was understated by Rs.45,000	Action will be taken in the future after finding out according to the account.	Correction should be done when preparing financial statements of the next year.

## 1.6.2 Un reconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
The total value relating to 03 account items in the financial statements was Rs.21,398,540 and unmatched of Rs.1,657,445 was observed due to value was Rs.22,373,647 according to the corresponding reports.	Action will be taken to do needed corrections.	Accounts should be corrected by comparing the differences of related balances.

## 1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
It was unable to verify in a satisfactory manner during the audit due to not presenting acceptable evidence relating for 4 account items worth Rs.2,603,238.	Action will be taken to present the related schedules in the future.	Accounts should be taken to present all the evidences needed for the audit.

## 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<sup>st</sup> December 2020, amounted to Rs.14,055,072 as compared with the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.12,398,117. The main reason for this was the increase of recurrent revenue of the year under review by 6 percent compared to previous year.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes Rs.1,965,748 which was due from private lease holders and Rs.337,556 which was due from government institutions were not collected that had been exceeded a period of one year from the arrears balance of Rs.3,866,457 which was due as at the end of year under review.	A difficult situation arised to hold property bans and mobile services due to the Covid pandemic. Relevant institutions have been already informed about the amount that is due from government institutions.	Actions should be taken to collect the arrears revenue without delay.

(b) Shop Rent  
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| (i)  | Shop rent of Rs.117,446 was not collected that is due from 05 shop stall as at the end of year under review.  | Action will be taken to collect by sending letters and informing shop owners.   | Action should be taken to collect the arrears revenue without delay. |
| (ii) | The assessment rent was collected according to the 2017 year assessment report for 30 shop stalls owned by the Council that has been given for long term lease and had not come to an agreement that included the new assessment. | It is expected to correct this by taking future actions through the procedure for recovery of possession by the Commissioner of Local Government. | Action should be taken according to terms of circulars.              |

**3. Operational Review**  
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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**  
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Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) As at 31 December the year under review the balances of receivable rates, water charges, prepayment and debtors of development projects totaled to Rs.17,870,146 and it included account balances of Rs.6,706,213 which is more than 1 year.	It has become a problematic situation to collect this arrears revenue by coming of the covid pandemic.	Action should be taken to collect without delay.
(b) Total of Rs.10,278,480 payable account balances were not settled as Rs.9,311,642 of creditors of development projects, Rs.216,460 of other creditors and Rs.750,378 of payable to government institutions as at 31 December the year under review and it included account balances of Rs.117,437 which is more than 1 year.	Action will be taken to correct by financial statements of the next year.	Action should be taken to settle without delay.

### 3.2 Operational Inefficiencies

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Audit Observation  
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Action has not been taken to issue deeds to the land owners who had paid in a proper manner Rs.1,037,309 which is due for the Council from 30 houses built in 1980 on a 8 1/2 acre land belonging to the Council.

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Comments of the Council  
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It has been directed for the approval of Hon. Governor and action will be taken to issue deeds when that approval is given.

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Recommendation  
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Action should be taken to collect the amounts due for the Council in a proper manner and to issue deeds quickly for the land owners who have not given deeds.