

Kegalle Urban Council – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kegalle Urban Council including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020 Statement of Financial Operations 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 Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255). My comments and observations which I consider should be reported 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 Kegalle 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Urban Council is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the Act.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the Act.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The loss of fired building of the central market has not been assessed and accounted. The Insurance claim of Rs. 5,000,000 received from the Insurance Corporation has been credited to deposit account instead of crediting to insurance claim account. According to the valuation of insurance claim of the insurance corporation, the insurance claim further receivable of Rs. 13,574,156 has not been accounted as insurance claim receivable.	The officers have been informed to account the loss and repairing of the fired building in financial statement of the year 2021 and instructions have been given officers to open the insurance and claim account in the future.	Accounts should be corrected.
(b) The sum of Rs. 4,899,951 related to the year 2019 has been accounted for the year under review without obtaining the stamp duty schedule for last 04 months of the year.	Informed that the Actions will be taken to rectify by journal entries when preparation the Final Account of the year 2021.	Accounts should be corrected.
(c) Rs. 991,384 have not been counted and accounted for discount given for the rates in the year 2019 for the year under review.	Informed that the relevant discount giving for rates are effective according to gazette imposed in annually.	Discounts given should be calculated and accounted on rates received in the prior year for the year under review.
(d) The Surplus of the year has been overstated due to over account by Rs. 150,000 of the court fines revenue in the year under review by same amount.	Informed that the action will be taken to rectify by journal entries in the year 2021.	Accounts should be corrected

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
The difference was Rs. 54,749 with regard to the two account subjects due to values of Rs. 6,526,737 as per financial statement and Rs. 6,471,988 as per schedules.	Attention of the council will be brought to write off in future due to the reason for the difference in advanced was stating error in the register and accounting error in library book balance.	Relevant supporting documents should be reconciled with the balances of the financial statements.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 71,627,845 as compared with the excess of revenue over recurrent expenditure amounted to Rs.81, 870,582 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
(a) Rates and Taxes	Restraining of properties have not been done due to covid pandemic and action has not been taken to restrain the properties due to unable to recover the rates and taxes of which majority part of outstanding rates was representing the untitled properties and informed that the rates assessment has not yet been fulfilled.	Outstanding should be recovered in terms of the Urban Councils Ordinance and Rates assessment process should be done in terms of the Circular.

(b) Rent

The total sum of Rs.1,276,392 rent and charges remained brought forward for over a year has not been recovered as at end of the year review.	Informed that the actions are being taken to recover the outstanding amount and made forward requisitions to obtain written off orders from the books and legal action has been taken.	Action should be taken to recover the outstanding.
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(c) Other Revenue

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| (i) The recoverable balance amounting of advertisement hoarding charges was Rs.324, 240. | Informed that the action will be taken to recover the due amount. | Action should be taken to recover the outstanding. |
| (ii) Action has not been taken to recover a penalty revenue of Rs.2,096,580 which remained outstanding over period of a year. | Informed that Requisition was forward for obtaining the written off orders to write off unrecoverable penalties from the books and legal action has been taken and Action is being taken to recover the rest of other amounts. | Action should be taken to recover the outstanding. |

3. Operational 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 Council under Section 4 of the Urban Councils Ordinance are shown below.

3.1 Management Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
The receivable capital grant amounting was Rs.14,985,275 as at the end of the year under review.	Informed that the Action will be taken to recover receivable balance.	Receivable balance should be obtained.

3.2 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
Both posts of Accountant and Administrative Service Officer from the 03 senior level approved carder has been remained vacant and post of Public Health Inspector which essential service to Urban Council is also vacant. Even though relevant officers have been reported monthly with regard to these vacancies, such vacancies have not been fulfilled.	Even though the details in respect of vacancies of the cadre had been forwarded to the top management monthly, the suitable solutions thereon were not received and informed that the all permanent appointment should be recruited by the Provincial Council.	Action should be taken to fulfil the vacancies.