

## **Balangoda 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 Balangoda Urban Council for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Section 181 (1) of Urban Council Ordinance (Cap.255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Balangoda 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 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 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 Sub-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 to be prepared.

#### 1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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.
- 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 Council
- Whether the Urban Council 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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National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Urban Council are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
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(a.) The Stamp Fees regarding the preceding year of Rs.9,882,204 had been credited to the Other income therefore the Operational income had been overstated by that amount.	The amount that should be credited to the accumulated fund had been credited erroneously to the other income account. Actions would be taken to avoid this kind of errors in the future.	Income regarding the preceding year should be credited to the accumulated fund.
(b.) Purchasing of Non-current Liabilities and Upgrading had been capitalized as Rs.29,353,432 even though it had been Rs.28,058,385 for the year under review, therefore the Non-current Liabilities and the Contribution to the Capital by the Revenue Account had been overstated by Rs.1,295,047.	It is expected to correct this error in the year 2021.	The overstated capital amount should be written off by the account.
(c.) The receivable interest of Rs.240,646 on the Fixed Deposits had been debited to the Deposits Account before it had been realized therefore the balance of the Fixed Deposits Account as at 31 December 2020 had been overstated by that amount while the current liabilities had been understated by that amount.	Actions would be taken to avoid this kind of mistakes when preparing the Financial Reports for the year 2021.	The Fixed Deposits interest should be stated in the accounts after it had been realized.

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| (d.) | The balance of the Cash transfer Account of Rs.9,307,943 had not been settled during the year under review also.   | It is expected to settle a considerable amount out of these balances when preparing the final accounts for the year 2021. | The balance of the Cash Transfer Account should be recognized and settled. |
| (e.) | An amount of Rs.41,078 spent on purchasing fixed Assets had been stated as recurrent expenditure therefore the Operational excess had been understated by that amount. | Actions would be taken to correct this in the year 2021.  | Actions should be taken to correct the accounts.                           |
| (f.) | Balance of the Industrial Creditors for the year under review had been understated by Rs.104,817.  | Actions would be taken to make the adjustments when making the final accounts for the year 2021.                          | Actions should be taken to correct the accounts.                           |

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue exceeding of the recurrent expenditure of the Sabha amounted to Rs.23,422,086 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.1,604,413. The increase in other income for the year under of Rs.19,999,221 compared to the preceding year had been reasoned for that growth.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Taxes	The progress percentage of the collecting of rates had been decreased due to the Easter Attacks in the year 2019 and the Corona Pandemic in the year 2020 therefore the time analysis would be prepared after upgrading the Computer Programme.	Actions should be taken to collect the revenue in arrears.

(b) Rent

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The rent in arrears of Rs.199,250 for 6 months to 29 months period from 14 stalls of accumulated 38.43 square meters in front of the Imperial had not been collect as at April 2021. Actions had not been taken by the Sabha to amend the rent at least once 5 years, and actions had not been taken to make written agreements with the 14 owners who hold the stalls.

A monthly rent had been charged based on the rent charged by the street vendors because the stalls were built temporarily in a small space by the owners of those stalls. Also the ownership of those stalls could not be recognized accurately therefore written agreements had not been made.

Actions should be taken to make written agreements and collect the income in arrears.

(c) Court fines and Stamp Duty

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Court Fines receivable for 31 December 2020 of Rs.445,326 had not been collected as at March 2021, the Stamp Fees for May to December 2020 had not been recognized as at March 2021.

The Court Fines had not been received by the Provincial Council and actions would be taken to collect in the future.

Action should be taken to recover the revenue of the Sabha.

**3. Operating Review**

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The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

**3.1 Management Inefficiencies**

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**Audit Observation**

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**Comment of the Council**

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**Recommendation**

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- (a) Economic rent had been charged by 05 Houses owned by the Sabha and that economic rent had not been reassessed after year 2010. Rs.1000 had been charged till December 2013 and Rs.1500 had been charged from January 2014 from a house assessed an economic rent of rs.2000 by the assessment made in the year 2010. Therefore Sabha had been lost an income of Rs.78,000.

Actions had been taken to charge the rent according to a decision taken by the Sabha on 2013.11.30 as to charge a monthly rent of rs.1500 even though the monthly rent had been assessed and imposed on the Quarters of the Sabha.

Actions should be taken to recover the rent according to the regulations of the Establishment Code.