

Embilipitiya Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Embilipitiya Urban Council for the year ended 31st December 2020 comprising the statement of financial position as at 31st December 2020 and the statement of financial operations for the year then ended including a summary of significant accounting policies and other explanatory information 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 Sub-section 181(1) of the Urban Council Ordinance (Cap. 255) and the provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be published 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 Embilipitiya Urban Council as at 31st 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 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 the 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 as management determine is necessary to enable the preparation of the Financial Statements that are free from material misstatements, 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 periodic financial statements to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 a 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 asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 Urban 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 the Other Legal Requirements

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

- a) The financial statements of the Urban Council are in consistence with that of the previous year as required by 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 required by Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit observation on the preparation of Financial Statements.

1.6.1 Accounting deficiencies.

	<u>Audit Observation</u>	<u>Comments of the council</u>	<u>Recommendations</u>
(a)	The capital expenditure incurred during the year under review amounting Rs. 2,060,720 had been written off as recurrent expenditure in the statement of financial operations and as such the operation surplus for the year had been under stated by similar amount.	It has been informed that, action will be taken to rectify in preparing accounts for the year 2021.	The recurrent expenditure and the capital expenditure should be correctly identified and prepared the financial statements.
(b)	Even though the court fines revenue relating to the year amounted to Rs. 1,077,223, it was brought to account as 900,000. As such the operating surplus for the year had been understated by Rs. 177,223.	It has been informed that the revenue of court fines had ben brought to account under accrual basis as well as other revenue.	The revenue relating to the year should be correctly identified and accounted for.
(c)	As the revenue credited for the joint account which is with the Urban Development Authority amounting to Rs. 2,148,630 that should be entered into the annual financial statements had not been recognized as revenue of the year under review, the operating revenue of the year had been understated by Rs. 869,705 and as the balance of the above account was not shown, the value of the cash and cash equivalent had been under stated by Rs 869,705. While a sum of Rs. 5,000,000 transferred from above account to the general account of the Sabha had been shown as liabilities in the statement of financial position, the current liabilities as of the end of the year under review had been overstated by same amount.	It has been informed that, action will be taken to rectify the deficiencies pointed out in preparing accounts of the ensuing year.	The revenue ,expenditure, assets and liabilities relating to the year should be correctly identified and accounted for.

1.6.2 Transactions without Authority.

Details of the Transactions without Authority

According to the paragraph 02 of the Planning Circular No. 08 of the Urban Development Authority, the expenditure should not be made from the money deposited in the Urban Development bank account without a prior approval of the Urban Development Authority. Nevertheless, a sum of Rs.5,000,000 had been transferred from the above account to the general account on the approval of the General Meeting without an approval of the Urban Development Authority during the year under review.

Comments of the Council

It has been informed that they had agreed with the audit observation and action will be taken to credit this money to Urban Development Fund in future.

Recommendations

Action should be taken in terms of the provisions of the Circulars.

2. Financial Review.

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs. 17,139,539 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 27,453,244.

2.2 Revenue Administration

2.2.1. Performance in Collection of Revenue

Audit Observation

(a) Rates and Taxes

Action had not been taken to recover the balance of the arrears of rates amounting to Rs. 47,993,067 as at the end of the year under review.

Comments of the Council

It has been informed that, the approval to restrain the properties had been requested from the Council to recover the arrears of rates but the approval was not granted.

Recommendation

Prompt action should be taken to collect the revenue receivable to the Council.

(b) Lease Rent

The Council had failed to recover the public market trade stall rent, and trading places rent totalling Rs.7,373,104 remained in arrears for over a period of 05 years from 93

It has been informed that action could not been taken due to corona epidemic, and action will be taken to

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lessees as at the end of the year under review and the lease agreements had not been entered into for the year under review relating to 40 trade stalls. Further, the cases had been filed against the lessees relating to 04 trade stalls to recover a sum of Rs. 1,023,231 but, action had not been taken to recover the arrears of lease rent of the other trade stalls.

recover these arrears of trade stall rent in future.

(C) Court Fines and Stamp Fees.

Action had not been taken to recover court fines amounting to Rs. 614,591 and stamp fees amounting to Rs 3,955,337 identified as to be receivable as at 31 December 2020 from the Chief Secretary of the Provincial Council and other authorities.

It has been informed that action will be taken to recover in future

Prompt action should be taken to collect the revenue receivable to the Council.

3. Operating Review.

The matters observed in respect of the activities that should be carried out by the Council such as regularize and control over the matters of public health, public utility services, thoroughfares and the comfort, facilities and wellbeing of the people under Section 4 of the Urban Council Ordinance are given below.

3.1. Uneconomic Transactions.

Audit Observation

A digital advertisement hoarding had been purchased by incurring a sum of Rs. 2,689,200 on the provisions of the Provincial Council based on an objective of promotion of income generation. Nevertheless, the Council had failed to achieve this objective of covering the basic cost within 20 months according to the project proposal as the income generated only had been Rs. 35,500 during the year 2020.

Comments of the council

It has been informed, that a suitable contractor had been selected under open competitive bidding method but as the expected income was not received, a proposal had been produced to the general meeting held on 28 May 2021 to procure again and to select a supplier but that proposal also had been rejected.

Recommendations

Action should be taken to obtain expected income from the asset according to the project proposal.

3.2 Operating Inefficiencies

Audit Observation

“Trade stalls of New Town Public Market” with 64 trade stalls which entrusted by the Urban Development Authority to the Urban Council in the year 2014 had been given by the Council to the lessees on the lease rental basis without entering into a written agreement. The approval had been requested from the Governor to write off the arrears of lease rental thereon amounting to Rs.734,622 in February 2020 while the Commissioner of Local Government had instructed to recover Rs. 675,000 receivable from 09 lessees remained further. Nevertheless, the Council had not taken action to recover those arrears.

Comments of the Council

It has been informed , that the trade stalls which were sealed had been tendered again and entered into agreements while action will be taken to enter into agreements with the owners of the trade stalls who had not entered into agreements and legal action will be taken against the owners of the trade stalls who had not paid lease rental.

Recommendation

Action should be taken to enter into agreements for the trade stalls not entered into agreements and prompt action should be taken to recover arrears of revenue.

3.3. Procurement Management.

Audit Observation

The approval of the Department of National Budget No BD/GPS/319/08/05 was received on 10 December 2019 to purchase a Mini Loader machine by utilizing the Council funds for the waste management of the Council under the method of direct purchases. Nevertheless, the purchase had been made on a financial lease for a sum of Rs. 7,497,888 on 01 January 2020.

Comments of the Council

It has been informed , that the Chairman had made this supply on the lease basis on the approval of the Finance Committee and General meeting considering the protest of the public due to spreading of a bad smell as turning of waste had been stopped in the Waste Management Centre

Recommendation

Action should not be taken contrary to National Policies.