

Borelesgamuwa Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Borelesgamuwa Urban Council including the financial statements for the year ended 31 December 2020 Statement of assets and liabilities as at 31 December 2020, Income Comprehensive Statement, Cash Flow Statement 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) and provisions of the National Audit Act No 19 Of 2018. 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 financial statements give a true and fair view of the financial position of the Borelesgamuwa Urban Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified opinion 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 **Sri Lanka Public Sector Accounting Standards**, 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 include specific provisions for following requirements.

- (a) The financial statements of the Urban council presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (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 National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Audit Observation	Comments of the Council	Recommendation
(a) Preparation of Financial Statements as per Sri Lanka Public Sector Accounting Standards-2017 for Local Government Institutions, Rule No. 84 relating to the Urban Council Financial Accounting imposed by the Extraordinary Gazette Notification No 2155/7 dated 24 December 2019 had not been done and also not introduced forms and code numbers required to maintain the accounts.	According to the budget standards of 2020 have been prepared and the relevant forms and code numbers have been used. From the year 2021 action will be taken to prepare according to the standards using the prescribed forms and code numbers.	Should be act in accordance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions and Extraordinary Gazette Notification No. 2155/7 dated 24 December 2019.
(b) For all the values in the financial statements presented for the current financial period, the Council had not provided the comparative information related to the previous comparable period.	It is difficult to enter the information of the previous year as the account had been prepared as per the old accounting system of 2019 and will take steps to include the information of the previous year in the presentation of the account in the year 2021.	Comparative information should be disclosed in financial statements.
(c) Depreciation for the year 2020 had not been accounted for as the Council had not decided on an acceptable depreciation method in terms of paragraph 6.15 of the Sri Lanka Public Sector Accounting Standards for Local Government Institutions.	As the assets were revaluated in 2020, and will be corrected in the final account of the year 2021.	Should be act in accordance with accounting standards.

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| (d) | Actual, budgeted and factual information for the previous year were not presented in the financial statements in a way that would be easy to compare with when submitting financial statements in line with public sector accounting standards. | This procedure has not been followed as no decisions or orders have been received in this regard and action will be taken when prepare the final account for the year 2021. | Should be act in accordance with accounting standards. |
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1.6.2 Accounting Policies

Audit Observation	Comments of the Council	Recommendation	
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(a)	Under the Accounting Policy, it was not disclosed the basis used to revalue property, plant and equipment methods of depreciation used, valuation of stocks, identification of recurrent expenses.	By mistake could not be submitted with the accounts and the relevant details are submitted herewith.	All important accounting policies should be disclosed in accordance with the standards.
(b)	As per the instructions of Asset Management Circular No. 4/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media, all the fixed assets owned by the institution should be revalued. But it had not been done.	Accept. Action will be taken to correct in the financial statements of 2021.	All fixed assets should be re-valued and accounted for.

1.6.3 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation	
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(a)	The purchase of capital assets for Rs.61,625,209 in the year 2020 had been accounted for as capital expenditure in the income and expenditure account without being accounted for as fixed assets.	A sum of Rs.1,521,819 has been credited to the Furniture and Equipment Account and the remaining capital assets will be rectified during the year 2021.	Action should be taken to account correctly.
(b)	A sum of Rs.22,470,773 had been received as capital grant for the year under review, but Rs.22,538,480 had been shown under Notes No. 10 of the Comprehensive Income Statement accounting Rs.67,707 more.	Accept. It is a grant for the purchase of drugs and is listed under Note 10 by a mistake. Correction will be made in the final account of the year 2021.	Action should be taken to account correctly.

- (c) A sum of Rs. 2,247,077 10 per cent of the capital contribution value for the year under review, should be shown in the Comprehensive Revenue Statement but only Rs.20,117,129 had been shown. Therefore Rs.17,870,052 had been accounted more. Accept. Correction will be made in the final accounts of the year 2021. Action should be taken to account correctly.
- (d) After adjusting No10 and 5 under Capital Grant , Rs.20,223,696 the balance value had been shown under unidentified Capital Grant in the Statement of Assets and Liabilities. Accept. Correction will be made in the final account of the year 2021. Action should be taken to account correctly.
- (e) Although 34 projects had been completed in the year 2020 at a cost of Rs.26,111,676 from the council fund, the value of those projects had not been accounted for under property plant and equipment. Action will be taken to obtain the relevant details and prepare accounts in the year 2021. Completed projects of construction should be capitalized.
- (f) The value of 04 work in progress projects funded by the Council were valued and not shown in the financial statements under work in progress. Action will be taken to obtain the relevant details and prepare accounts in the year 2021. Action should be taken to correctly account the work in progress.
- (g) Action had not been taken to transfer the balance of the existing property, plant equipment account as at 31 December 2019 to the reserve and provision account and to account the value of the new property, plant equipment. The balance of the Income Contribution Account for Capital has been transferred to the Reserves and Provision Account and the balance of the property, plant Equipment Account will be transferred to the Reserve and Provision Account in 2021. Action should be taken to account correctly.
- (h) Although the balance of property, plants and equipment should be revalued and carried forward to 1 January 2020, some assets were taken into account without been revalued and the same balance Accept. Correction will be made in the final account of the year 2021. All property, plant and equipment should be revalued and properly accounted for.

brought forward from the previous year and also some assets had not been accounted for.

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| (I) | Although the sum of Rs.67,707 received for the purchase of drugs was to be accounted for under recurrent expenditure of the Government Grants that amount had been accounted for under the Capital Grants. | Accept. Correction will be made in the final account of the year 2021. | Action should be taken to account correctly. |
| (J) | A sum of Rs.20,160 receivable from 03 institutions which had provided Galli bowser service during the year under review had not been accounted. | Accept. Correction will be made in the final account of the year 2021. | Action should be taken to account correctly. |
| (k) | Although the stamp income received was amounting to Rs.50,007,624 during the year, it was shown as Rs.61,461,624. As a result of stamp income had been shown more by Rs.11,454,000 in the final accounts. | There was an accounting error Correction will be made in the final account of the year 2021. | Action should be taken to account correctly. |
| (L) | Although the loan installments of compactor 02 provided by the Department of Local Government had been deducted from the stamp income and recovered, as a result of not recording the accounts correctly a sum of Rs.13,139,466 had been shown under creditors in the years 2019 and 2020. | No comments. | Obtain a balance confirmation and take action to make an accurate account. |
| (m) | Although according to the financial statements the cash balance was Rs.13,602,463, according to cash flow statement the final cash balance was Rs.125,561,405 and there was a difference of Rs.111,958,942. | Accept. Correction will be made in the final account of the year 2021. | Action should be taken to account correctly. |

- (n) The reserve and provision account had been shown more by Rs.1,655,902 due to the erroneous entry of Rs.134,084, the value of library books purchased during year 2020 and Rs1,521,818 the value of furniture and equipment had been credited to reserve and provision account erroneously. Accept. Correction will be made in the final account of the year 2021. Action should be account correctly.
- (o) Although the opening balance of the Cumulative Fund brought forward from the previous year was Rs.136,116,047 ,as it was shown as Rs.136,055,341 there was a difference of Rs.60,706. Accept. Correction will be made in the final account of the year 2021. Action should be taken to account correctly.

1.6.4 Lack of Documentary Evidence for account

Audit Observation	Comments of the council	Recommendation
The required schedules for an account subject amounting to Rs.8,284,095 had not been submitted for audit.	Will be prepare miscellaneous deposit schedules and submit those for audit before 01 June 2021.	Detailed schedules should be submitted.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over recurrent revenue of the council for the year ended 31 December 2020 amounted to Rs.2,887,122 as against the excess of revenue over recurrent expenditure amounted to Rs.76,870,331 in the preceding year.

2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
Rates and Taxes		

- (a) Although the assessed tax revenue for the year under review was Rs.27,250,079, it was failed to be recover Rs.10,050,075 or 37 per cent during the year. 63 per cent of the billed income in 2020 had been recovered as assessment tax. Legal action on arrears of assessment taxes for the last quarter of the current year can be taken only before the 10 of the first month of the next year. Action should be taken to recover the arrears.

- (b) Bill stalls rental income for the year under review was Rs.990,300 but out of which Rs.760,023 only had been recovered the balance of Rs.132,839 could not be recovered. During the year under review, 76 per cent of the billed rental of shops had been recovered. Action should be taken to recover the arrears.
- (c) It was failed to recover the industry tax arrears of Rs.53,000 for the years 2012, 2013, 2014, 2017 and 2018 even during the year under review. Action will be taken after obtaining a justification report to write-off as arrears which are unable to legally recoverable. Revenue should be recovered during the relevant period.