

Minuwangoda Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Minuwangoda Urban Council including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement, statement of changes in net assets/ equity, 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 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 financial statements give a true and fair view of the financial position of the Minuwangoda 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 express 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 following recommendations which I made on financial statements for the preceding year had not been implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.
1.2.2(c) 1.2.5 (b), 2.2.2, 3.2(b)(c), 3.3.1, 3.4 and 3.5

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

Non -compliance with Relevant Standard	Reference to the	Comments of the Council	Recommendation
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(a)	Fittings for furniture, roads owned by the Council and 11 lands owned by the Council mentioned in the Register of Fixed Assets had not been revaluated as per No. 18.7 and the letter of the Commissioner of Local Government No. LGD / 10A / 4 / 20.8 / 2019 .	It is informed that the actions will be taken to reevaluate and account for in the year 2021 .	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.
(b)	The payments made during the year from the capital expenditure grants received under Note 10 in the financial statements should be deducted as grants recognized in surplus and the balance should be recorded under grants unrecognized in surplus under net assets / equity in terms of No. 9.9 . Nevertheless, out of the provision of Rs. 11,961,854 received, as the total provision of Rs. 4,395,902 of the year under review had been adjusted to	It is informed that the actions will be taken to correct in the financial statements of the year 2021 .	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

the income of the year under review, under transfers from government for non-recurrent expenses under Note No. 05, the surplus had been overstated by that amount .

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| (c) | Although the payments made during the year from the capital expenditure grants received under Note 10 in the financial statements should be deducted as recognized grants in surplus and the balance should be recorded under unrecognized grants in surplus under net assets/equity in terms of No. 9.9, the balance of Rs. 7,565,952 had not been so mentioned. | It is informed that the actions will be taken to correct in the financial statements of the year 2021 . | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions. |
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1.6.2 Submission of Accounts

Audit Observation	Comments of the Council	Recommendation
(a) Although the value of Rs.33,728,431 for the industries of the year 2020 should be mentioned as work-in-progress in terms of EG 3.1 of Explanation and Guidance of Sri Lanka Public Sector Accounting Standards for Local Government Institutions, since it was accounted for as expenses by the journal entries, the surplus for the year had been understated.	It is informed that the actions will be taken to correct the financial statements for the year 2021 .	Actions should be taken to submit accounts accurately.
(b) The format for statement of changes in net assets / equity of the financial statements had not been properly applied to the financial statements for the year 2020 as per the Format Circular No. LGD / 09/2019 (1) dated 24 August 2020 of the Commissioner of Local Government, Western Province.	It is informed that the actions will be taken to correct the financial statements for the year 2021 .	The format should be correctly applied.
(c) The fixed deposit interest receivable that should be brought to accounts as receivables from exchange transactions amounting to Rs. 654,217 had been brought to accounts under prepaid and receivables.	It is informed that the actions will be taken to account for under receivable from exchange transactions.	It should be accurately accounted for.

1.6.3 Disclosures in Financial Statements

Audit Observation	Comments of the Council	Recommendation
----- Although it should be revealed by a note on the legal actions taken by the institution/against the institution in terms of the Section 06 of the Circular LGD /10A / 4 / ௩.௪ / 2019 dated 12 February 2021 of the Commissioner of Local Government, Western Province, actions had not been taken accordingly.	----- It is informed that the disclosure will be made in preparing the financial statements for the year 2021 .	----- It should be accurately disclosed.

1.6.4 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) The total revalued amount of machinery and furniture valued at Rs. 15,046,040 had been brought to machinery account entirely without accounting separately for machinery and furniture.	It is informed that the amount of revaluation will be taken into account separately in preparing the financial statements of the year 2021 .	It should be accurately accounted for.
(b) The library books received as donations during the year under review valued at Rs. 123,997 had been accounted for under short-term payables instead of accounting for under net assets / equity.	It is informed that it has been specified to be included in the stock balance.	All the arrears should be accounted for.
(c) A provision of Rs. 40,155,600 had been made debiting sundry expense accounts and crediting sundry creditors by a journal account and because of being included a provision of Rs. 1,364,112 made under stores creditors by another journal entry in sundry creditor balances, the value of warehouse creditors had been double computed by Rs. 1,364,112 .	It is informed that the actions will be taken to correct in the financial statements of the year 2021 .	It should be accurately accounted for.

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| <p>(d) Although the opening balance of the property, plant and equipment for the year was Rs. 8,998,093 and the additions of the year was Rs. 300,630 as per Note No. 16 , by writing off those values into the accumulated fund through journal entries, the value of furniture purchased during the year under review had took a zero value.</p> | <p>It is informed that the actions will be taken to correct the financial statements of the year 2021 .</p> | <p>It should be accurately accounted for.</p> |
| <p>(e) Although the changes occur in asset revaluation had been adjusted to reserves and provisions account and also the increase of value of the assets during the revaluation was Rs. 1,133,243,389, the increase in the value of revaluation had been understated in the accounts by Rs.300,630 by accounting for Rs.1,132,942,759 in the reserves account through journal entries .</p> | <p>It is informed that the actions will be taken to correct the financial statements of the year 2021 .</p> | <p>It should be accurately accounted for.</p> |

2. Financial Review

2.1 Financial Results

The surplus of the Council in the financial statements submitted for the year ended 31 December 2020 was Rs. 5,039,859 as per the Sri Lanka Public Sector Accounting Standards for Local Government Institutions and the revenue exceeding recurrent expenditure for the preceding year was Rs. 30,511,099.

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 04 of the Urban Council Ordinance are as follows.

3.1 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
<p>(a) When providing temporary trade stalls near the bus stop for 7 contracted lessees and 20 non-contracted sub-lessees at the time of the damages occurred to 32 trade stalls in the Central Public Shopping Complex on the riot</p>	<p>Since the assessment report was received on 09 December 2019, it is informed that 60 months rent has been charged</p>	<p>Actions should be taken in accordance with the Circular and correct information should be submitted for</p>

that took place on 13 May 2019 in Minuwangoda town, since the calculations were based on the monthly rent that has been inherited for a long time in the Register of Trade Stall Rent, without taking actions in accordance with the Circular No.LGD/06/02/04 dated 06 December 2017 of the Commissioner of Local Government, Western Province, a loss of Rs. 4,848,000 had occurred to the Council and 05 lessees whose details were not included in the list of Revenue Inspector had been included erroneously to the list which was sent for the Governor's approval. During the field inspection conducted on 18 February 2021, it was revealed that the more than 50 per cent of the trade stalls were run by non-contracted sub-lessees and a monthly rent from Rs. 15,000 - Rs. 20,000 are being charged from sub-lessees .

based on the existed approval. shop rent and it is informed that the names of the lessees of 20 shops have been amended and the approval of the Governor has been obtained for that.

- (b) The technical officer had computed and reported that the 1002 cubes of gravel were used to fill the old weekly fair grounds which was demolished and removed the gravel for the construction of the new building of the Public Market Complex. It had been reported that during the new construction period of 2019-2020, a load of 717.97 cubic meters of soil had been removed from the site and transported along with the soil that had been filled and excavated and agreements had not been entered into with the construction company regarding the removal and transportation of this soil. Despite the contracted Company had stated in writing that the soil removed from this site would not be used for their filling activities in construction, the formal documentary evidences on removal of soil and placement of them had not been submitted to audit.

It is informed that the arrangements have been made to dispose of a portion of the soil to several religious places and places of charities and to a land owned by the Council. It should enter into an agreement and act in a transparent manner.