

Beruwala Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Beruwala 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 Beruwala Urban Council as at 31 December 2020, and of its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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 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 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)**

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

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

- (a) The financial statements of the Municipal 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

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

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a.) Even though the budgeted details should be revealed by an entity on the financial statement under Full Disclosure Principle according to the Section 3.7 of the Public Sector Accounting Standards of Sri Lanka 2017 the details had not been revealed.	Actions would be taken to disclosure by the year 2021.	Actions should be taken to reveal according to the Accounting Standards.
(b.) Revaluation of fixed assets according to the Section 42 to 56 of the Public Sector Accounting Standards of Sri Lanka 2017 had not been carried out but an assets value of Rs.74,705,081 had been written off and revealed by the note 16.	Actions would be taken to make it correct by the final accounts for the year 2021.	Actions should be taken to reveal according to the Accounting Standards.

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a.) The Tipper had been stated twice under the motor vehicles as Rs.6,009,605 and under the machinery as Rs.4,208,721 therefore the Property, Plant and Equipment had been overstated by Rs.4,208,721.	Actions would be taken to make it correct.	Stating twice should be corrected.
(b.) A difference of Rs.20,000 had been observed between the value of Fixed Deposits according to the Statement of Assets and Liabilities of Rs.42,963,693 and the value as per the other corresponding documents and the certificates of Rs.42,943,693, therefore the fixed deposits had been understated by Rs.20,000.	An error had been occurred as stating the value of the fixed deposits less Rs.20,000 in the statement of Assets and liabilities.	Over statement in the account should be corrected.
(c.) The value of 11 land allotments valued Rs.217,927,250 out of 20 land allotments owned by the Sabha had been stated in the accounts of the Sabha and the rest of the 09 land allotments had not been stated.	According to the Fixed Assets Register for the year 2020 only 04 land allotments had the Certificates of Possession.	The understatement should be corrected.

1.6.3 Unreconciled Control Accounts

Audit Observation

There was a difference of Rs.4,390,040 relevant for 05 items of accounts, between the balances as per the financial statements of and the balances as per the corresponding reports.

Comment of the Sabha

Actions would be taken to correct it in the future.

Recommendation

Actions should be taken to reconcile the balances and make them correct.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Council amounted to Rs.14,504,458 for the year ended on 31 December 2020 as compared with the corresponding recurrent expenditure exceeding the revenue for the preceding year amounting to Rs.6,740,072.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
The arrears for 5-10 years had been Rs.2,722,482 and arrears for over 10 years had been Rs.1,736,248 out of the total arrears of Rs.19,449,906.	The arrears as at 2021.09.30 had been Rs.2,722,482 for 5-10 years and Rs.1,736,248.	The income in arrears should be recovered as soon as possible.