

Horana Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Horana 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). 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 Horana 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.

- 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.
- The recommendations which I made on financial statements for the preceding year had been included 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

| Non -compliance with Reference to the Relevant Standard | Comments of the Council | Recommendation |
|---|--|--|
| (a) Even though total stock of electricity, printing stock, ayurvedic medicine and stationery as at 31 December 2020 amounting to Rs. 4,234,682 had been stated in the accounts as final stock value and also the stock assessment should be done using the FIFO method in accordance with Sri Lanka Public Sector Accounting Standards No. 5.11 for Local Authorities , final stock assessments had been made in contrary to that . | Although stock has been brought to accounts on FIFO, certain stocks have not been so accounted for and actions will be taken to account for in future. | Accurately accounted for as per the Standards. |
| (b) Although value of Rs. 6,906,697 received from fixed deposit realization should be stated under investment activities in the cash flow statement in accordance with Sri Lanka Public Sector Accounting Standards No. 3.29, that value had not been specified. Further, although the interest income received in cash for the year amounting to Rs. 4,500,785 should be shown in the cash flow as interest received on investment activities, it had not been so indicated. | Actions will be taken to correct in future. | Accurately accounted for as per the Standards. |

1.6.2 Accounting Deficiencies

| ----- Audit Observation ----- | ----- Comments of the Council ----- | ----- Recommendation ----- |
|--|---|---|
| (a) Capital grants received and under external provisions for the year under review amounting to Rs. 12,433,218 had not been shown as contract debt assets and comprehensive income statement. | Receipts from external entities were accounted for through general deposits and will be corrected in future. | It should be accurately accounted for. |
| (b) Although a sum of Rs. 10,747,603 received under external provisions during the year under review had been recorded as receipts in the contract cash book it had not been stated in the debtor's account. | It will be corrected from the final account for the year 2021. | |
| (c) Even though the debtor balance of the contracts was Rs. 1,685,733 , because it was stated as 1,694,333 in the financial statements, the balance receivable had been overstated by Rs. 8,440 . | It will be corrected from the final account for the year 2021. | |
| (d) Payments made and payable to creditors under external provisions for the year under review amounting to Rs. 20,258,265 had not been brought to creditors accounts as the assets generated from that and property plant and equipment under roads and culverts. | Actions will be taken to account for as assets accurately from the year 2021. | |
| (e) Instead of a sum of Rs. 7,825,047 that should be allocated fro 12 projects as creditors implemented under Council provisions, a provision of Rs. 8,050,000 had been made for the 10 projects . | Although the provisions were made as creditors at the time of the completion of projects , failure to make full payment at the time of making payment had caused to this. | |
| (f) The 50 plastic chairs purchased during the year under review amounting to Rs. 42,228 had not been brought to accounts under office equipment and the income received from non-exchangeable transactions in the financial statements. | It will be corrected from the final account for the year 2021. | |

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| (g) Although the purchase of plant and machineries and computers in the year was Rs. 1,692,565 , a sum of Rs. 200,000 had been understated by accounting as Rs. 1,492,565 in the financial statements. | It will be corrected from the final account for the year 2021. | It should be accurately accounted for. |
| (h) Since the accounting of the motor vehicles as Rs. 69,231,790, instead of the revaluation amount of Rs. 95,275,657, the motor vehicle value of property plant and equipment amounting to Rs. 26,043,867 and the value of reserves had been understated by that amount. | It will be corrected from the final account for the year 2021. | |
| (i) Since the accounting of the machinery as Rs. 7,288,690 instead of the revaluation amount of Rs. 6,638,500, the machinery value of property plant and equipment amounting to Rs. 650,190 and the value of reserves had been overstated by that amount. | It will be corrected from the final account for the year 2021. | |
| (j) As a result of accounting for a sum of Rs. 40,492 instead of Rs.9,400 to be paid to the Director of Pensions the creditor balance to be paid had been overstated by Rs. 31,092 . | It will be corrected from the final account for the year 2021. | |
| (k) The value of billing of stamp duty receivable of the year under review amounting to Rs. 15,000,000 had been omitted from the financial statements. | Revenue from financial statements can be shown as an extraordinary increase if included in the annual billing and actions will be taken to enter into the to the annual account obtaining accrued amount accurately. | |
| (l) Because of stating Rs. 1,336,688 instead of Rs. 915,749 to the income and expenditure account under the receipts from exchange transactions, the income had been understated by Rs. 779,061 | It will be corrected from the final account for the year 2021. | |
| (m) Instead of stating the value of Rs. 225,100 in financial statements as other sales revenue in Programme No.07 under Physical Adjustment Roads, a sum of Rs. 217,917 had been overstated because it was recorded as Rs. 443,014. | It will be corrected from the final account for the year 2021. | |

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| <p>(n) Although the repair and maintenance cost of Public Administration Programme No. 01 was Rs. 1,316,956, as it was stated as Rs.400,981, the expenditure had been understated reduced by Rs. 915,975 .</p> | <p>It will be corrected from the final account for the year 2021.</p> | <p>It should be accurately accounted for.</p> | |
| <p>(o) The value of 44 plots of land owned by the Council amounting to Rs. 2,352,761 and buildings valued at Rs. 305,500,000 had been assessed by a Committee consisted of Council Officers instead of obtaining a formal assessment from the Valuation Department.</p> | <p>Assets will be assessed and corrected from the final account for the year 2021 .</p> | | |
| <p>(p) Although the value of the tractor and trailer obtained in cash and donation was Rs. 1,965,400 at the end of 2019 in the Waste Management Unit a sum of Rs. 65,400 had been understated by indicating Rs.1,900,000 as assets in the financial statements .</p> | <p>It will be corrected from the final account for the year 2021 .</p> | | |
| <p>(q) Although the full employees salary reimbursement income for the year ended 31 December 2020 should be taken into accounts as Rs.110,893,271, the income for the year had been overstated Rs. 174,179 by calculating that amount as Rs.111,067,451 .</p> | <p>It will be corrected from the final account for the year 2021.</p> | | |
| <p>(r) Even though the Members' allowance receivable as at 31 December 2020 amounting to Rs. 195,000 had been received on 06 January 2021, the value had not been stated under current assets in the financial statements.</p> | <p>It will be corrected from the final account for the year 2021 .</p> | | |
| <p>(s) Although the fixed deposit interest income for the year ended 31 December 2020 should be adjusted to accounts as Rs.4,090,730, since that amount was adjusted as Rs. 5,026,395, the revenue of the year had been overstated by Rs. 935,665 .</p> | <p>It will be corrected from the final account for the year 2021 .</p> | | |
| <p>(t) Although the fixed deposits as at 31 December 2020 stated under non-current assets as Rs. 53,233,773, since the amount was indicated as Rs. 52,547,256 , that amount had been understated by Rs.686,517. Further, although the interest income receivable as at 31 December 2020 should be shown under current assets as Rs. 735,087 , since that amount was shown as Rs. 360,947 , the value of current assets had been understated by Rs. 374,140 .</p> | <p>It will be corrected from the final account for the year 2021 .</p> | | <p>This should be accurately accounted for .</p> |

1.6.3 Unreconciled Control Accounts or Records

| Audit Observation | Comments of the Council | Recommendation |
|---|--|--|
| A difference of Rs. 980,887 was observed in between the balances relevant to 04 account items shown in the financial statements and the balances shown in the schedules pertaining to them. | Arrangements will be made to correct the accounts. | Actions should be taken to reconcile the differences in the relevant balances and to correct the accounts. |

1.6.4 Lack of Written Evidences for Audit

| Audit Observation | Comments of the Council | Recommendation |
|--|---|--|
| Necessary information had not been submitted to audit with regard to 02 account items totalled to Rs. 35,107,130 . | Actions will be taken to provide in future. | The evidences which confirms the account balances shown in the financial statements should be submitted. |

2. Financial Review

2.1 Financial Results

The revenue exceeding the recurrent expenditure of the Council for the year ended 31 December 2020 in the financial statements submitted was Rs. 5,320,659 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 4,703,016 .

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 Management Inefficiencies

| Audit Observation | Comments of the Council | Recommendation |
|--|---|---|
| (a) Although 04 stalls were constructed by the Council at a cost of Rs. 574,000 and handed over to the lessee as per the agreement under the Poverty Alleviation Strategic Programme and also the lessee had | Selecting 04 low income families to uplift the living standards of the poor and providing these stalls for the milk / porridge project and to pay Rs. 7,000 per person as | The lessee should pay cash for the stalls as per the agreement. |

- to pay in 36 installments of Rs. 3,984 each, the Council had not taken action to recover the money.
- lease rent and requesting the Council that this amount could not be paid as low income earners and accordingly, a decision will be taken after referring to the Council in future.
- (b) The bar near the Old Municipal Building had been closed without notice by those who had obtained it and the gas cooker therein which was given by the Council had decayed and the milk parlour had been leased to another person without taking action to recover the loss from the relevant person. Further, actions had not been taken to recover the amount of Rs.90,000 to be received from 04 milk parlours leased out even by the end of 2020 .
- The milk parlour was closed by the people who had taken on lease, without any notice and because it could not be handed over with the goods again the stall was opened and handed over to another person. Further, as they are low income earners, the decision will be sent to the Council and necessary actions will be taken in future.
- Arrangements should be made to undertake the equipment given by the Council back to the Council.
- (c) Despite the agreement had been entered into with the Institute of Information and Communication Technology of Sri Lanka for 03 years and that institution had introduced the local government system in the year 2018, actions had been taken to install another computer system again in the year 2019 .
- A new computer system had to be installed depending on the performance of the installed computer software system.
- It should not act to install other computer systems without a proper study of the functioning of the installed computer system.
- (d) Although requests had been made by two qualified institutions to prepare the required specifications when installing a new computer system, specifications had been received only from the University of Sri Jayewardenepura.
- Actions should be taken to prepare specifications on the request made by the Council to one institution.
- Action should be taken to obtain specifications by 02 institutions qualified for that.
- (e) Prices for the above purchases were submitted by two agencies and without considering the minimum price of Rs. 2,088,000, the Technical Evaluation Committee had decided to obtain the relevant service from Nekfa Australia Private Company for a price of Rs. 5,885,000 .
- It has been purchased with the approval of the General Meeting of the Council on the recommendation of the Evaluation Committee in accordance with the Technical Specifications of the Council.
- The reasons to ignore the lowest price offered should be submitted in the Technical Evaluation Report.

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| (f) | Although a sum of Rs. 2,992,475 had been paid in March 2020 for the installation of this software system, a guarantee of the success of the installed system prior to making those payments had not been obtained from the Technical Evaluation Committee. | The success of the system cannot be done all at once and that the data has been entered and the activities have been checked and a confirmation has been obtained from the relevant officers. | Payments should be made by evaluating the functionality based on Technical Committee Reports to make payments after installing the computer system. |
| (g) | Although the above payment was made, a software system for inventory and warehouse management was not operational until 21 September 2020 and a sum of Rs. 690,000 had been paid for that. | Entering information regarding storage balance was delayed due to a network error and due to the inability to contact the company that installed the system on the Corona situation, actions will be taken to continue to function properly in future. | The software system should be installed and evaluate the functionality and make payments. |

3.3 Human Resources Management

| Audit Observation ----- | Comments of the Council ----- | Recommendation ----- |
|--|---|--|
| (a) Although there should be an officer in the Administrative Service for the post of Secretary of the Council, a Management Services Officer had been appointed. | The existing vacancies have been notified by the Council and the vacancy has not been filled by the Western Provincial Public Service Commission. | Actions should be taken to fill the vacancies. |
| (b) Despite there was no vacancy for the post of Ayurvedic Medical Officer a doctor had been recruited on a temporary basis. | Appointment has been made to cover the leave of the approved medical officer and because there is a need for another medical position, as there is a need for another medical position. | Recruitments should be made only for vacant posts. |
| (c) Although there was no staff approved by the Department of Management Services for the post of Pre-School Teacher Assistant, 03 were recruited on a casual and temporary basis. | Recruitment was done subject to payment of allowances from the Pre-school Fund. | Recruitments should be made only for vacant posts. |