

Panadura Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Panadura 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 Panadura 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 -----
It had been revealed that the cash flow statement for the year under review had not been prepared under the Public Sector Accounting Standards because of the following observations.		
(a.) Even though the Excess for the year had been Rs.37,752,935 it had been stated as the excess in the cash flow statement the difference of the opening and the closing balances of the accumulated fund account and the reserves accounts of Rs.62,530,561 therefore the cash flow by the Operational Activities had been overstated by Rs.24,777,626.	Inform that an error had been occurred. It had been stated in the restructured cash flow statement.	The excess should be accurately stated in the cash flow statement.
(b.) Even though the value of purchasing fixed assets during the year had been Rs.6,922,737 it had been stated as Rs.18,061,149 therefore the cash flow by the investment activities had been understated by Rs.11,138,412.	That value had been corrected by the restructured Cash Flow Statement.	The value of the purchasing property and Plant during the year should be stated accurately.

- (c.) Even though the cash flow would not be raised by the increase of capital reserves, the increase in reserves and the allocations during the year of the of Rs.24,777,626 had been stated as an increase in the cash flow by the financial activities. That value had been corrected by the restructured Cash Flow Statement. The raise in the capital should not be stated as a raise in cash flow.

1.6.2 Accounting Deficiencies

----- Audit Observation -----	----- Comment of the Council -----	----- Recommendation -----
(a.) Allocations on the creditors had been made of Rs.14,001,835 on 1 Projects that had not been commenced during the year under review.	These projects had been considered as work in progress and made the allocations for the creditors.	The allocations for the creditors should not be made on the projects not commenced.
(b.) Even though the suitable suppliers had been suggested by the Technical Evaluation Committee by the report on 23 December 2020 to purchase 07 Laptop Computers, a Photo Copy Machine, and a Laser Printer and not made agreements between the suppliers as at 31 December 2020, but an allocation on creditors had been made of Rs.1,172,000 and that amount had been stated under the work in progress too.	The allocations for creditors had been made because it was essential and specific equipment to purchase.	The allocations should not be made for the transactions without an agreement.
(c.) The purchasing, issuing and disposing of the stock had not been mentioned separately as excesses and shortages according to the stock verifications and the net result of Rs.828,849 out of the above transactions had been debited the General Stock Account and credited the relevant Expense Account as the difference of the opening and closing stock.	An error had been occurred. Actions would be taken to make it correct in the future.	Actions should be taken to account it accurately.
(d.) A verification had not been carried out of the Ayurveda Medicine Stock and it had been stated as the stock value of Rs.325,179 according to the report made by the Ayurveda Doctors.	A Stock verification would be carried out and it would be stated accurately.	The Stock Verification should be carried out.

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| (e.) | A stock valued rs.1,519,129 recommended to dispose by the Board of Survey Report had not been physically disposed but it had been written off by the accounts. | The disposal had been delayed due to some practical issues and actions would be taken as soon as possible to dispose | The stocks should not be written off by the accounts before they had been physically disposed. |
| (f.) | A computer software system implemented by a cost of Rs.2,955,000 in the year 2018 had not been completely activated as at 31 December 2020 and rs.1,222,833 had been written off out of its value without any basis. Therefore Assets had been understated by an amount of Rs.1,222,833. | The Computer Software System had been disposed by depreciating on the diminishing error method. | Assets should not be disposed on the depreciation rates when revaluating. |
| (g.) | 03 Lands at Kahatagaha Watta, Katakellagaha Watta and Kunu Kotuwa Watta owned by the Sabha but it had been missed by the land Register and the Assets Account. | The lands had been missed by an error actions would be taken to include them in the supplementary documents later. | It should be stated as the Assets owned by the Sabha. |

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
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05 balances of accounts accumulated to Rs.6,009,507 could not be satisfactorily vouched because of not presenting the detailed supplementary documents and confirmations to the audit.	Inform that actions would be taken to present the relevant documents.	Actions should be taken to present the evidence to prove the balances of the accounts.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs.37,752,935 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.7,469,855.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
The total rates in arrears as at the end of the year under review had been Rs.35,601,703 out of that Rs.3,135,812 had been for 3-5 years and the balance over 05 years had been Rs.3,187,850.	A part of the arrears had been recovered as at 30 May 2021.	Actions should be taken to collect the income in arrears as soon as possible.