

Kolonnawa Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kolonnawa Urban Council including the financial statements for the year ended 31 December 2021 comprising the Statement of assets and liabilities as at 31 December 2021, Comprehensive Income Statement, Statement of changes in 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 the 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 accompanying financial statements give a true and fair view of the financial position of the Kolonnawa Urban Council as at 31 December 2021, 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 Government Authorities.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 for Local Government Authorities, 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 Municipal 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Noncompliance with the Sri Lanka Public Sector Accounting Standards for Local Authorities

Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
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(a) According to section 9.8 of the standard, receiving donations/supports etc. from the government were not recognized in the relevant period.	Action will be taken to account the values of the donated items from each organization.	Action should be taken according to the standards.
(b) As per Clause 11.9 of the standard, a comparison of additions and deductions, unutilized values etc. has not been disclosed at the beginning of the period and at the end of the capacitance value period in respect of provisions for doubtful liabilities and doubtful assets.	Action will be taken to reveal it from this year.	Action should be taken according to the standard and gazette.

1.6.2 Accounting Deficiencies

Audit observations	Comment of the Council	Recommendation
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(a) During the year under review Rs.32,946,800 received from the Road Development Authority for road widening and Rs.1,277,463 received from the sale of iron and wire during the removal of unauthorized constructions totalling Rs.34,224,263 from the sale of assets had been accounted as profits received instead of accounting under other income in the statement of comprehensive income.	Agreed. Action will be taken to account for such values as income in the future.	Action should be taken to identify the relevant accounts and accounted properly as income.

- (b) During the year under review, the council had sold 05 cars and one machine for an amount of Rs.3,466,820 and the whole amount had been accounted as profit from sale of assets. After adjusting for the cost of the asset and the accumulated depreciation related to the asset, the profit from the sale of the said asset was Rs.1,347,340 and the loss was Rs.42,200 which was not reconciled in the separate financial statements.
- The amount accounted for as profit on sale of assets under note 7 of the financial statements is Rs.37,691,083. Since the entire amount received from the sale of vehicles has been recognized as profit, and as such the value of Rs.3,466,820 is removed from the accumulated funds and surplus deficit account.
- Action should be taken to account properly.
- (c) The depreciation value for the year 2021 amounting to Rs.1,147,107 in relation to the capital grant receipts amounting to Rs.5,735,537 in the year 2020, was not accounted.
- Accounting has been omitted due to a mistake. The value has been accounted by JE 04 2022.
- Action should be taken to properly account depreciation relevant to the year.

1.6.3 Unreconciled control accounts or reports

Audit observations	Comment of the Council	Recommendation
A difference of Rs.3,728,661 was observed between the values according to the financial statements and the schedules related to an accounting item.	Action will be taken to rectify it.	Action should be taken to rectify it.

1.6.4 Lack of Documentary evidence for audit

Audit observations	Comment of the Council	Recommendation
In relation to 06 accounting items, the total assets/values amounting to Rs.63,318,962 could not be satisfactorily vouched and accepted during the audit due to the lack of presentation of the evidence for equating the assets/values.	The balance has been transferred to the respective accounts until the balance is settled. Actions is being taken to correct the deficiencies in the documents.	Evidence that has not been submitted should be submitted promptly.

1.7 Non-Compliance

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

Reference to Laws, Rules Regulations	Non-compliance	Comment of the Council	Recommendation
(a) Urban Council Ordinance Section 170 (2).	Although it should be the duty of the Secretary of the council to take all the necessary steps to collect the payments belonging to the council and credit them to the fund of the urban council, the council had exempted the assessment tax amount of 23 properties for 2021.	As shown by the audit, tax exemptions have been made because the said properties are not occupied and not in use. Existence of a specific property is not a factor for accrual of assessment and the Council is legally empowered to grant tax relief under the provisions of Section 240 of the Municipal Ordinance read with Section 166 of the Municipal Ordinance. Notified that the tax exemptions have been granted after formal approval by the Property Revenue Inspectors who have submitted reports to the tax committees and the General Assembly who have requested for tax concessions, after formally checking the eligibility for tax exemptions through quarter to quarter field inspections.	Action should be taken according to the Urban Council Ordinance.
(b) Establishment Code of the Democratic Socialist Republic of Sri Lanka Chapter XIX	(i) Paragraph 6:2 Although a government quarter can only be allocated to a government official who is in service, on the contrary, the public health inspector who works in the council on a contract basis after	He was informed in writing to arrange for the delivery of the Secretary's official residence and related inventory items. In response to that, it has been stated that it is possible to use the official residence that other facilities should be provided relevant to the	According to Section 10 of Public Administration Circular 03/2018, the official residence and its existing inventory

retirement had been given the official quarter of the Secretary of the Council since January 2009.

(ii) Paragraph 7.1

When an officer is ordered to resign from his official residence, if he does not do so, under the Government Housing (Recovery of Possession) Act No. 7 of 1969, as amended by Acts No. 3 of 1971 and No. 40 of 1974, he should be removed from that house, however such was not done. Also, as per Section 7.2 of the Act a penalty was also not levied for overstaying the tax period.

post according to the provision of reinstatement according to section 10 of the Public Administration Circular 03/2018 issued for reinstatement of retired officers,.

With the Covid 19 epidemic in the first quarter of 2020, the work of public health inspectors was essential day and night, so a relief was given for the use of the official house. Further action will be taken regarding the fines once the letter sent to the Local Government Commissioner is answered.

items should be withdrawn as this official residence is not relevant for use.

As per the instructions of the Government Quarters Act, the official residence should be taken back promptly.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.55,553,691 as compared with excess of revenue over recurrent expenditure amounted to Rs.19,217,504 in the preceding year and it was observed that the financial result of the reviewed year had grown by Rs.36,336,087.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit observations

Comment of the Council

Recommendation

Rates and Taxes

As on the last day of the year under review, the arrears of assessed value amounted to Rs.62,802,298 and the council had not recovered any amount after the year 2016 in respect to an amount of Rs.7,155,893 of the said assessment arrears.

In the future, programs will be implemented for the prohibition of property and action will be taken to recover the remaining arrears promptly.

Action should be taken to recover the arrears of assessment revenue.

3. Operational Review

3.1 Management Inefficiencies

Audit observations	Comment of the Council	Recommendation
The manual paper machine valued at Rs. 4 million given to the council by the Industrial Development Authority on 13 March 2013, was not included in the inventory register as an asset of the council. Also, those machine parts were kept idle without being used for production work.	Accepted. At the time the parts of this machine were delivered to the council, the machine was divided into parts and an officer knowledgeable enough was not employed in the council to identify and inventory the parts separately, so the parts inventory of the manual paper machine was not documented. Due to the fact that the machine parts could not be formally identified separately at the time of receipt of the machine parts, the sizes of the parts at that time were noted and filed by drawing diagrams. These machine parts were not in a condition where they could be assembled and put back into working condition	Action should be taken to document properly assets and use them for intended purposes.

3.2 Under -utilization of Funds

Audit observations	Comment of the Council	Recommendation
Out of the estimated allocation of Rs.31,908,100 for 13 development activities in the transformation year, Rs.26,560,000 had not been utilized even as of the end of the year under review.	An amount of Rs.26,560,000 was not utilized from January to October 2021 due to the closure of the country and institutions due to the Covid epidemic. Provisions were left especially due to not holding cultural and literary events, due to the lack of development work of roads, bridges, culverts and drains etc.	Provisions should be managed efficiently.