

Beruwala Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Beruwala 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 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 Beruwala 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 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 for Local 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 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 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
<p>(a) Although the depreciation for assets should be done from the year after the year in which the asset is put into use in terms of the Section 3.5 of the Standard, the depreciation cost of the solar panel valued at Rs.3,365,000, and the toilet system built at a cost of Rs.645,543 that had put into use in the year 2021 had been overstated by Rs.352,639 due to the depreciation in the year 2021 itself.</p>	<p>This will be corrected in the financial statements of the year 2022 .</p>	<p>Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.</p>
<p>(b) gh the entity should reveal the introspective information related to the previous comparable period for all values presented for the current year in the current set of financial statements in terms of Section 3.6 of the Standard, it had not been so presented.</p>		

- (c) Following values had not been correctly taken into account while preparing the cash flow statement in terms of Section 3.27 of the Standard.

Although the surplus for the year was Rs.50,168,142 as per the income statement, the figure had been shown in the cash flow statement as Rs. 50,212,567 .

The depreciation expense accounted for the year was Rs. 11,908,814 and the value had been stated as Rs. 133,490 in the cash flow statement. Further, although the interest income under investment activities should be stated as Rs.2,537,437, the figure had not been included in the cash flow statement.

- (d) Transfers of property, plant and equipment had not been accounted for and carried forward under unidentified capital transfers as per Section 9.6 of the Standard. Details are as follows.

The amount of Rs.3,365,000 receivable for solar panel under provincial development grant and the total receivable of Rs.645,543 for toilet system during the year 2020 should be capitalized and the recognized the income in the year 2020 .

A sum of Rs. 497,792 given by the Marine Environment Authority for the construction of a drain system in the year 2020 had not been capitalized and the income had not been recognized.

A sum of Rs.1,917,578 received for the construction of the Ayurvedic Building and Rs.935,661 received for the construction of the drainage system in Rasik Marikkar Mawatha under the provincial development grant in the year 2021 had been capitalized and adjusted in the accounts as income of the year 2021 .

This will be corrected in the financial statements of the year 2022 .

Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.

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| <p>(e) gh the transfers received from parties other than the Government should be recognized as debits in that year, in terms of Section 9.10 of the Standard, the value of materials received as donations on 12 June 2021 had not been assessed and accounted for.</p> | <p>This will be corrected in the financial statements of the year 2022 .</p> | <p>Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.</p> |
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1.6.2 Accounting Deficiencies

----- Audit Observation -----	----- Comments of the Council -----	----- Recommendation -----
<p>(a) Although a sum of Rs.137,840 payable for computer software during the year under review should be debited to the computer software account, that amount had been accounted for under computers.</p>	<p>This will be corrected in the financial statements of the year 2022 .</p>	<p>Assets should be accurately accounted for</p>
<p>(b) As a provision for depreciation had not been made for library books during the year under review the surplus for the year had been overstated by Rs.401,481. Further, since the value of library book stock was not shown under property, plant and equipment as at 31 December 2021, the property, plant and equipment balance had been understated by Rs.4,108,534 as at 31 December 2021 .</p>		
<p>(c) By including the salary of Rs.190,084 paid to 07 employees for the period from 2015 to 2020 in the expenditure of the year, the profit for the year had been understated by that amount.</p>		
<p>(d) In capitalizing the costs related to roads, culverts and bridges, the estimated contractual value had been accounted for without capitalizing the actual value of the assets. Accordingly, although assets of Rs.8,878,300 was capitalized as at 31 December 2020, because it was observed that the actual cost was Rs. 6,946,170 as per the final payment of those assets, the value of assets had been overstated by Rs.1,932,130 as at 31 December 2020 . Further, this asset depreciates at 10 per cent per year and depreciation expense related to that had been overstated by Rs.193,213 .</p>		

- (e) Fixed deposit interest income for the year under review had been understated by Rs.223,850 .
- (f) A vehicle valued at Rs. 194,000 had been identified as an unusable vehicle according to the Boards of Survey 2021 and this value had been removed from property, plant and equipment as at 31 December 2021 . Accordingly, the balance of property, plant and equipment as at 31 December 2021 had been understated by Rs. 194,000 .
- (g) The stock of Ayurveda warehouse as at 31 December 2021 was Rs.76,800 and by not taking that value into account in the final stock verification, the closing stock had been understated by Rs.76,800 .
- (h) A sum of Rs. 4,348,661 was received as grants from the government for non-recurrent expenses in the year 2021 and when calculating the income, the portion of the capital grants received for non-recurrent expenses in previous years, which is recognized as expenses related to the year that is amortization should be taken to the income in the year, in contrary to that the surplus for the year had been overstated by that amount by taking the amount of Rs. 4,348,661 as income .
- (i) Although the capital grant value received for the year 2021 should be stated as capital expenditure grants received under other comprehensive income, a sum of Rs. 4,348,661 received during the year under review had not been recorded as such.

This will be corrected in the financial statements of the year 2022 .

Assets should be accurately accounted for

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Council was Rs. 50,168,142 for the year ended 31 December 2021 and the correspondence revenue that exceeded the previous year's recurrent expenditure was Rs.6,309,609.

2.2 Performance on Revenue Collection

Audit Observation

Comments of the Council

Recommendation

- | Audit Observation | Comments of the Council | Recommendation |
|--|---|--|
| (a) Out of the total arrears of rates at the end of the year under review amounting to Rs.18,471,762 twelve rate payers had defaulted on payments of Rs.998,076 in between 02 to 10 years. | Out of the arrears as at 01 August 2022, a sum of Rs. 265,992 has been recovered. | Actions should be taken to recover the rates during the prescribed year. |
| (b) The opening balance of the arrears of rent for the under review was Rs.5,441,492 and out of that, a sum of Rs. 4,505,914 or 83 per cent had not been recovered during the year. | Legal actions will be taken to collect the rent of Rs.146,260 . | Actions should be taken to recover all the arrears rents. |

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 iv of the Urban Council Ordinance are as follows.

3.1 Uneconomic Transactions

Audit Observation

Comments of the Council

Recommendation

A software had been purchased by incurring Rs.4,350,000 on 10 devices in June 2020 to collect the income of the council through the internet and without conducting a feasibility study related to getting software and how effectively this software can be used for the Council and what software is actually needed for the Council and it had not been used from the date of purchased up to December 2021.

Answer has not been given.

Requirement should be identified and purchased.