

## **Panadura Urban Council - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Panadura 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 Panadura 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**

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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**

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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)

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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

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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

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### 1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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<b>Non -compliance with Reference to the Relevant Standard</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Although only the transactions that have an effect on the surplus for the year should be recorded as adjustments under operating activities in terms of Section 3 of the Standard, since the net value of previous year adjustments made to the accumulated fund amounting to Rs.13,129,264 was indicated, the cash flow from operating activities had been overstated by that amount.	As it is not realistic to adjust the receipts and payments for the previous years as income or expenditure of the year it has been shown as prior year adjustments.	Only receipts and payments related to the year should be included in the cash flow statement.
(b) Although land and buildings should be identified and accounted for separately, in terms of Section 6.3 of the Standard, the value of 16 lands of 26.57 perches of 06 acres had not been identified and only the cost of Rs.11,537,032 of the buildings on those lands had been accounted for.	Assessment values have been received on these 16 lands and it was documented in the 2101 that document.	Land and buildings should be identified and accounted for separately.

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| (c) The residual values of assets had not been estimated while calculating depreciation for the year under review in terms of Section 6.10 of the Standard and the depreciation adjustments had been made based on the cost of the assets. | Estimating residual values of assets is problematic in practice. | Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities. |
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### 1.6.2 Accounting Deficiencies

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Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs. 514,091 received under the implementation programme of the Western Provincial Council had not been accounted for as capital grants.	This has occurred due to a mistake and will be capitalized during this year.	Capital grants related to the year should be accounted for.
(b) The creditor provisions of Rs.3,136,627 had been made for 04 projects where contractors refused to undertake construction on the rise in the price of construction materials during the year under review.	The relevant societies have informed that the construction is not possible.	Provisions for creditors should not be made for non-implementation projects.
(c) Even though the local authorities have decided not to collect the entertainment tax charged from the movie theatres for 02 years by the letter No. CA/06/02/DO1/NFC dated 10 February 2021 of the Secretary of the Ministry of Buddha Sasana Religious and Cultural Affairs, as a result of entertainment tax amounting to Rs.600,000 was billed for the year under review, the income had been overstated by that amount.	A decision to remove from income has not yet been given by the Local Government Department	Entertainment tax should not be billed as per the decision,.
(d) The value of the Kunukotuwa Watta that is Dunumadalagaha Watta land with 02 Roods and 28.47 perches situated in Vekada within Panadura Municipal Council had not been recognized and accounted for.	It has been sent to the Valuation Department to determine the value of the land.	The value of the land should be assessed and accounted for.

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| (e) | The accurate value of library books was not identified and accounted for by a revaluation during the year under review.  | Since it was included in fixed assets for the first time from 01 January 2021, a revaluation had not been carried out.              | Library books should be revalued and accounted for.   |
| (f) | Depreciation value of Rs.1,486,863 for the year under review for library books with a cost of Rs. 14,868,625 as at 01 January 2021 had not been accounted for.   | As it is not possible to depreciate on a common value in depreciating library books, depreciation was not done on practical issues. | Depreciation of library books should be accounted for.  |
| (g) | A cabin fan cost at Rs.8,990 received from the stores during the year under review had not been accounted for under property, plant and equipment.   | It was noted for correction.  | Fixed assets received by the warehouse should be properly accounted for.  |
| (h) | Although the value of 02 fumigators received to the stores on 25 June 2021 including VAT was Rs.349,920, it had been accounted as Rs.324,000 that is excluding VAT amounted to Rs.25,920 .   | It was noted for correction.  | Fixed assets received by the warehouse should be properly accounted for.  |
| (i) | Although the value of the High Pressure Grease Injector Machine received at the warehouse on 31 March 2021 was Rs.25,250, it had been accounted for as Rs. 27,550 that is, it was overstated by Rs. 2,300 .  |   |   |
| (j) | In the capitalization of fixed assets amounting to Rs. 1,075,237, which was debited to recurrent expenditure heads in the year 2020 and make provisions for creditors, the reserves and provisions account had been credited instead of crediting the accumulated fund while correcting the error in the surplus of the previous year. | This will be recorded accurately using journal entries.   | The mistakes made in the previous year should be rectified through the accumulated fund.                        |
| (k) | Although the net book value of property, plant and equipment should be shown in the statement of assets and liabilities, the cost of Rs. 128,179,133 was stated and the  | That the net book value of property, plant and equipment will be shown under non-current assets in the                              | The net book value of property, plant and equipment should be shown in the statement of assets and liabilities. |

balance of provision for depreciation account amounting to Rs.5,229,360 had been shown separately as a non-current liability

- (l) Although a separate column should be used to record reserves and allowances in the statement of changes in equity, the opening and closing balances of the reserve and allocation account are Rs.101,150,440 and Rs.103,234,459 respectively had been added to the accumulated surplus. The reserves and provisions will be recorded under a separate column in the next year. Reserves and allocations should be shown separately in the statement of changes in equity.
- (m) Although the interest income of Rs. 116,763 received for the year 2021 related to the Urban Development Authority Savings Account should be shown under Programme No. 04 Physical Plan, it had been mentioned under Programme No. 02 Services and Taxes. The interest income will be shown under the physical planning programme in the next year. Interest income should be brought to accounts under the relevant Programme.
- (n) Even though the recommendation of the General Assembly was received on 02 May 2019 for the writing off of Rs. 935,671 as per the documents to prove the settlement of the advance amount of Rs. 1,000,000 given to a private company on 08 November 1993 for the construction of the public market, due to not getting the approval of the Local Government Commissioner for that, the amount had not been written off even as at 31 December 2021 and it was shown in the financial statements as an advance due from 28 years. Although the requests have been made to the Local Government Commissioner to write off this amount, the approval for that has not been received so far. Actions should be taken to recover the advance.

## 2. Financial Review

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### 2.1 Financial Results

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As per the financial statements presented, the income exceeding the recurrent expenditure of the Council was Rs. 63,731,152 for the year ended 31 December 2021 and the correspondence revenue that exceeded the previous year's recurrent expenditure was Rs. 37,752,935 .

## 2.2 Performance on Revenue Collection

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Audit Observation	Comments of the Council	Recommendation
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(a) The total arrears of rates at the end of the year under review was Rs.43,648,051 and there was the arrears of Rs.39,600,784 from 01 to 05 years, the arrears of Rs.2,614,687 from 05 to 10 years and the arrears of Rs.1,432,580 from more than 10 years.	A part of the arrears has been recovered.	The arrears of income should be recovered promptly.
(b) The stamp duty to be received from the Chief Secretary of the Provincial Council and other authorities from 2018 to 2021 was Rs.107,747,530 and the stamp duty schedule for the year 2021 had not been prepared and forwarded to the Provincial Revenue Department by the end of the year under review.	Due to the Corona epidemic, it was not possible to prepare the schedule.	Actions should be taken to prepare schedules promptly and collect stamp duty.

## 3. Operating Review

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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.

### Management Inefficiencies

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Audit Observation	Comments of the Council	Recommendation
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The Council Meeting had decided on 21 May 2021 to purchase a vehicle on rental basis to provide transport facilities to public health inspectors on duty in the city limits and to transport patients during the Covid epidemic. Accordingly, a vehicle that had been obtained was not given to the public health inspectors but was given to the female officer attached for the position of Secretary to arrive from home and leave the office that a sum of Rs.562.800 and Rs.178.356 had been spent for rent and fuel expenses for respectively from 21 June to December 2021.	As a result of giving the cab owned by the Council to public health inspectors for Covid matters a motor vehicle was obtained on rental basis for the Secretary's transportation based on the shopping method.	Actions should be taken to follow Public Administration Circulars and Council Decisions when providing transportation facilities.