

Thangalla Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thangalla 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 Thangalla Urban Council as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 Generally Accepted Accounting Principles, 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 Accounting Deficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a.) The accumulated Stamp Duty recoverable regarding the year under review had been overstated by Rs.3,714,520.	The supplementary documents for the year 2019 had been received at the end of the year 2020 therefore actions would be taken to account all the documents and to write-off the excess amount after all the documents received.	The revenue should be accurately accounted.
(b.) The amount of Rs.1,000,000 received from the Ministry of Provincial Council to reimburse the amount of expenditure amounting to Rs.1,972,159 that the Sabha had spent to rebuild the houses damaged by the Flood in the year 2017 had been accounted as deposits and not as reimbursements.	Actions would be taken to correct it in the future.	Reimbursements of expenses should be account accurately.
(c.) The Capital Assets implementation expenses of rs.194,540 for the year under review had been accounted as recurrent expenditure.	Actions would be taken to correct it in the future.	Expenditure should be accounted accurately.

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.16,518,527 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.16,424,786.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Taxes		
i. Actions had not been taken to recover the rates receivable of Rs.2,880,057	Actions would be taken to recover the rest of the amount.	The receivable revenue should be recovered as soon as possible.
ii. Actions had not been taken to recover the entertainment and business tax receivable of Rs.203,596.	A request to the Governor had been sent to write off an amount of Rs.67,560 and the rest of the arrears would be recovered in the future.	-do-
(b) Rent		
i. Actions had not been taken to recover the amount of stall rent and Fines receivable of rs.6,362,929 and 432,495 respectively. And also a time analysis had not been prepared for the stall rent receivable.	An interim injunction had been imposed or the collection of the stall rent by the Provincial high Court and actions would be taken to recover the stall rent after the case is over and the time analysis would be prepared in the future.	The arrears stall rent should be recovered as soon as possible.
ii. Actions had not been taken to recover the accumulate amount of Rs.2,861,342 of Land Tax, Building Rent, Fisherman Rest rooms Rent.	The Arrears in land tax of rs.468,656 could not be recovered due to a law suit against it held in the High Court and the actions would be taken to recover the rest of the future	The rent in arrears should be recovered as soon as possible.

- (c) License Fees

Actions had not been taken to recover the License Fees receivable and the Hoarding Board Charges of rs.152,000. A request had been sent to the Governor asking the permission to write –off an amount of Rs.110,500 and actions would be taken to recover the rest. -do-
- (d) Court fines and Stamp Duty

The Stamp Duty receivable from the Chief Secretary of the Sabha and the other officers had been Rs.20,622,445. Actions would be taken to recover the rest. -do-

3. Operating Review -----

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies -----

Audit Observation -----	Comment of the Council -----	Recommendation -----
The Telephone Bill Allowance for the Members of the Sabha had been paid Rs.15,187 over for 05 Members without considering the tax rate of 22.6 per cent on the call charges of the Fixed Rental. The Telephone Bill allowance paid accumulated Rs.27,450 for three Members exceeding the monthly reimburse limit.	The overpaid amount of Rs.15,187 would be offset when paying the bills in future, and the annual limit for the telephone bill allowance had not been exceeded.	The Accurate tax rate should be calculated and the monthly telephone bill allowance limit should not be exceeded.