

Kolonnawa Urban Council - 2020

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 2020 comprising the Statement of assets and liabilities as at 31 December 2020, 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 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 2020, 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 skepticism 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 (1) (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 Government Authorities

Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
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Sri Lanka Public Sector Accounting Standards for Local Government Authorities

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| (a) All the values presented in the Current Financial Statement period under Section 3.6 of the Standard should be submitted; however the comparable information relating to the previous comparable period had not been comparatively disclosed | Action will be taken to correct in the coming year. | Should comply with the Standards and Gazette Notification. |
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| (b) | According to Section 3.9 of the standard, the budgeted information in the financial statements, such as the initial budget, the final budget and any quantitative changes between them, had not been disclosed. | Will be presented the budget information for the coming year when preparing the account. | } | Should comply with the Standards and Gazette Notification. |
| (c) | According to Section 6.3 of the standard, lands and buildings are required to be disclosed separately under property, plant and equipment; however it has not been done. Also, land had not been accounted as property, plant and equipment. | Action will be taken account for the year 2021. | | |
| (d) | The damages to property, plant or equipment for the reporting period had not been disclosed in the financial statements in accordance with Section 6.20 of the Standard. | Action will be taken to correct in the coming year accounts. | | |
| (e) | In accordance with Section 15.13 of the Standards, the Council had not disclosed separately any of the non-refundable values and approvals thereof for receivables in exchange and non-exchange transactions. | Action will be taken to correct in the coming year accounts. | } | Should comply with the Standards and Gazette Notification. |

1.6.2 Accounting Deficiencies

Audit observations	Comment of the Council	Recommendation
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(a) 27 plots of land valued at Rs.5,352,300,000 belong to the Council had not been disclosed as property plant and equipment in the financial statements	Action will be taken to account in the year 2021 after re-valuation the lands owned by the Urban Council.	Actions should be taken to account correctly.

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| <p>(b) There was a credit balance of Rs.13,459,770 as per the Capital Grant Account not included in the Deficit / Excess of the year under review without a General ledger account related to the balance. However, Rs. 15,133,841 had been accounted as capital donations in the financial statements and Rs. 1,674,071 had not been taken into account as capital expenditure during the year.</p> | <p>The balance of the Capital Grant Account not included in the Deficit / Excess for the year under review is Rs.13,459,770 and there was no public ledger account relevant to it and action will be taken to maintain an account in the coming year.</p> | <p>Actions should be taken to account correctly.</p> |
| <p>(c) The Capital contributions for the year under review had been under-stated due to credit Rs.2,000,000 received from the Government on 10 December 2020 for the construction of the new Assembly Hall, Rs.2,800,000 received from the Government for works on 03 November 2020 and Rs. 335,203 received as capital grant under the Gamperaliya program on 08 December 2020 to the Accumulation Fund's surplus and deficit accounts.</p> | <p>In the year 2021, will make accurate accounts in the preparation of accounts. In 2020, the cumulative fund was credited with a late error.</p> | |
| <p>(d) The Council work on 12 industries valued at Rs. 7,286,645 had not been completed in the year 2020 and They had not been included to the work in progress in the financial statements.</p> | <p>Action will be taken to account under the work in progress in the financial statements for the next year.</p> | |
| <p>(e) The Government Capital Assistance amounting to Rs. 15,053,337 had been accounted by the journal entry No.70 and it had been accounted in the building account as Rs. 2,777,503 and the roads and culverts account as Rs.12,275,834 instead of being account as work in progress.</p> | <p>Action will be taken to account under the work in progress in the financial statements for the next year.</p> | <p>Action should be taken to account correctly.</p> |

1.6.3 Non reconcile control accounts

Audit observations	Comment of the Council	Recommendation
A difference of Rs. 3,826,585 was observed between the value as per the financial statements and the value as per the schedules of the two accounts.	Action will be taken to correct in next coming year.	Action should be taken to correct documents and schedules.

1.6.4 Lack of Documentary evidence for audit

Audit observations	Comment of the Council	Recommendation
Due to non-submission of required information, 07 accounting items amounting to Rs.59,747,113 could not be satisfactorily vouched during the audit.	Action will be taken to correct in next coming year.	Relevant approval and detailed schedules should be submitted.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs. 19,217,504 as compared with the revenue over recurrent expenditure amounted to Rs. 82,914,518 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance of the collection of Revenue

Audit observations	Comment of the Council	Observation
Rates and Tax		
The assessed value due as at the end of the year under review was Rs. 48,408,473 and out of which 90 outstanding balance of assessment arrears with a value of more than Rs. 40,000 was due and the amount due from them was Rs. 22,050,406. Further, the detailed schedules for identifying the assessed debtor balance of Rs. 3,728,661 had not been submitted.	Action will be taken to implement property banning programs in the future and recover the arrears expeditiously and submit accurate schedules in the future..	Urgent action should be taken to recover the arrears by method of foreclosure or legal action and relevant schedules should be submitted.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Council Act are shown below.

3.1 Management inefficiencies

Audit observations	Comment of the Council	Recommendation
(a) Under the budget allocation for 2019, according to the distribution of school books and equipment to the children of low income families living in the Kolonnawa Urban Council area, books and equipment required for 2150 children were purchased through Voucher No. 2839 dated 31 December 2019 for Rs. 940,438, out of this, 598 parcels of books valued at Rs.252,223 were in the stores without distributing as on 26 January 2021 and It was observed that the delay in delivery was due to the purchase of children from low income families without identifying properly them.	The arrangements were made twice for this book distribution program, however various problems were encountered. This task could not be performed on the dates used due to communication problems, not enough applicants came on the day of the book distribution, which resulted in the book parcels remaining.	The action should be taken to identify the low income families who need to distribute school books and equipment and make purchases accordingly and take action to distribute the relevant items expeditiously.