

Maharagama Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maharagama Urban Council including the financial statements for the year ended 31 December 2020 Statement of assets and liabilities as at 31 December 2020, Income Comprehensive Statement, 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 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 financial statements give a true and fair view of the financial position of the Maharagama 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 Authorities.

1.2. Basis for Qualified Opinion

I expressed 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, 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 following recommendations made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

Paragraph reference	Audit Observation	Recommendation
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2.2	The current account No.607629 had been closed in August 2015, a nominal value of Rs.2,052,258 had been shown in the accounts even during the year under review.	Action should be taken to settle.

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

Audit Observation	Comments of the Council	Recommendation
(a) Preparation of Financial Statements as per Sri Lanka Public Sector Accounting Standards-2017 for Local Government Institutions, Rule No. 84 relating to the Urban Council Financial Accounting imposed by the Extraordinary Gazette Notification No 2155/7 dated 24 December 2019 had not been done and also not introduced forms and code numbers required to maintain the accounts.	Action will be taken in future in accordance with the forms and code numbers introduced by the Department of Local Government.	Should be act in accordance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions-2017 and Extraordinary Gazette Notification No. 2155/7 dated 24 December 2019.
(b) For all the values in the financial statements presented for the current financial period, the Council had not provided the comparative information related to the previous comparable period.	Not replied.	Comparative information should be disclosed in financial statements.
(c) Actual, budgeted and factual information for the previous year were not presented in the financial statements in a way that would be easy to compare with when submitting financial statements in line with public sector accounting standards.	Not replied.	Should be act in accordance with accounting standards.

1.6.3 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) All fixed assets owned by the institution had not been revaluated as per the instructions of Asset Management Circular No.	Three committees have been appointed to revalue the assets. All assets of the Council will be revaluated and action will be taken to prepare the 2021	All fixed assets should be revaluated and accounted for.

4/2018 dated 31 December Financial Statement.
2018 of the Ministry of Finance
and Mass Media.

- (b) Although 186 projects had been completed during the year 2020 at a cost of Rs.149,509,028 from the council fund, the value of those projects had not been accounted for under the property, plant and equipment. Accept. Action will be taken to correct in the financial statements of 2021. All completed assets should be capitalized.
- (c) The value of 23 work in progress projects funded by the Council was Rs.20,034,000 and those had not been accounted for in the financial statements under work in progress. As work in progress was not accounted for in the preparation of the final accounts of previous years it had not been done this year too. Action will be taken to correct in the financial statements of 2021. The work in progress should be properly accounted for.
- (d) Office equipment should be depreciate by 12.5 per cent annually, but office equipment valued at Rs.1,713,462 depreciated by 7.5 per cent, as a result annual depreciation was shown as Rs.128,510 and depreciation value was understated by Rs.85,672. Accept. Action will be taken to correct in the financial statements of 2021. Action should be taken to account for according to the correct depreciation policy.
- (e) As repairs and maintenance expenses had been recorded more by Rs.184,598,363 the surplus was shown more by that value. Action will be taken to correct in the financial statements of 2021. Action should be taken to account correctly.
- (f) Although the fixed assets valued at Rs.716,652 purchased in the year 2020 were copied to the ledger, those were not recorded in the relevant fixed asset accounts. Action will be taken to correct in the financial statements of 2021. Action should be taken to account correctly.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31 December 2020 amounted to Rs.331,691,844 as against the excess of recurrent expenditure over revenue amounted to Rs.58,109,485 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation

Comments of the council

Recommendation

Rates and Taxes

The amount of property identified for collection of arrears of assessment tax was 29995 and the unrecovered assessment tax for three to five years was Rs.10,879,644 and the assessment tax for five years or more was Rs.16,544,837. Appropriate measures had not been taken to recover those amounts.

Property restraining Officers and Revenue Inspectors have been deployed to collect assessment taxes that have not been paid for 3 to 5 years.

Action should be taken immediately to recover the arrears rates and taxes.

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 Councils Ordinance Act are shown below.

3.1 Management Inefficiencies

Audit Observation

Comments of the Council

Recommendation

(a) Although Urban Council has the power to cancel the lease agreements, whenever a lessee

The files for the proceedings have been hand over to the Council Attorneys.

Should be complied with lease agreements.

defaults payment for over six months. Action had not been taken by the Council to cancel the rent agreements of 109 trade of stalls which had delayed payment amounting to Rs.7,058,936 for 6 months to 3 years and to acquire them. Courts activities have been delayed due to the Corona situation in the country.

- (b) Although the Council had paid a total of Rs.24,554,972 including Rs.13,717,577 to the Urban Development Authority in the current year for the acquisition of the Navinna Stadium , it had not been acquired a deed even as at 31 December 2020. Requests have been made to the Urban Development Authority regarding the takeover. Special attention has been paid to this. Action should be taken to take over.