

## **Seethawakapura Urban Council – 2020**

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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 Seethawakapura Urban Council including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, 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 Council 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 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 Seethawakapura Urban Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities

#### **1.2 Basis for Qualified Opinion**

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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**

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

<b>Reference to the paragraph</b>	<b>Audit observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
1.2.3 (b)	The action had not been taken to recover the arrears of advertiser notice charges amounting to Rs. 23,299.	The actions are being taken to recover in future.	Action should be taken to recover the recoverable balances
1.2.3 (c)	The actions had not been taken to recover the private bus stand charges amounting to Rs. 230,700.	The actions are being taken to recover in future.	Action should be taken to recover the recoverable balances.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Noncompliance with the Sri Lanka Public Sector Accounting Standards for Local Government 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)	The value of the separate components of the Government Transfer equity, which does not satisfy the liabilities in other comprehensive revenues as per Section 9.9, was not disclosed in the statement of assets and liabilities.	Present it correctly next year as the amount is not mentioned in Note 12 of the Comprehensive Income Statement by mistake.	The standards Should be followed.
(b)	According to the Section 11.9 comparison statement for Utilized value added, subtracted and deducted during the period of retention value at the beginning and end of the period in respect of provisions for intangible liabilities and intangible assets had not been disclosed.	Unable to submit a comparison as this information was identified this year and action will be taken to submit comparisons from next year.	The standards should be followed.

- (c) In accordance with Section 15.13, the Urban Council shall disclose separately the value of the non-refundable receivables in the exchange and non-exchange transactions and the approval thereon. In addition, Rule No. 227 (iv) on Accounts Relating to the Financial Administration of the Urban Councils, as enshrined in Gazette Extraordinary No. 2155/7 dated 24 December 2019, had also emphasized this matter.
- Action will be taken to present from next year.
- Should comply with the Standards and Gazette Notification.

## 1.6.2 Accounting Deficiencies

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<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
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<p>(a) Property, plant and equipment purchased under Chapter 6 of the Sri Lanka Public Sector Accounting Standards for Local Government Authorities had not depreciated in the year of purchase.</p> <p>However, depreciation was Rs. 14,030 for computers purchased of Rs.93,530 during the year under review and Rs. 255,875 for depreciation of Rs. 10,235,000 for maternity clinic buildings had been accounted.</p>	<p>Action will be taken to correct the final accounts on 31.12.2021.</p>	<p>Account should be prepared in accordance with the standard.</p>
<p>(b) 14 machines purchased at a cost of Rs. 3,397,581, 16 CCTV cameras and accessories system that could not be find the value and the LED board that could not be find the value received from the Central Environmental Authority were not re valuated and accounted as property, plant and equipment.</p>	<p>The action will be taken to correct the final accounts on 31.12.2021.</p>	<p>All property, plant and equipment should be accounted.</p>
<p>(c) The cash flow from the operating activities of the year had not been entered the depreciation value of Rs. 25,705,745 of the transactions during the year under review and excluding unidentified capital expenditure of Rs.7,244,281 in excess or deficit cash flow from operating activities had been under stated from that amount.</p>	<p>The action will be taken to correct the final accounts on 31.12.2021.</p>	<p>The cash flow statement should be prepared correctly.</p>

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| (d) | Non-recurring expenses in the Comprehensive Revenue Statement for the year under review had been accounted instead of accounting for Rs. 3,506,652 as transfers made by the government, Rs.35,066,521. As unrecognized capital grants in the declaration of assets and liabilities had been accounted Rs.31,559,869, instead being accounting for Rs.7,244,281 As a result, the profit for the year was increased by Rs. 31,559,869 and the equity was reduced by Rs. 24,315,588. | Only items identified as fixed assets had been accounted as fixed assets.                                    | Accounting should be done according to the new accounting standards. |
| (e) | Property, plant and equipment during the year under review had been accounted as recurrent expenditure of Rs.12,663,798. Meanwhile, credit allocations for capital expenditure amounting to Rs. 22,834,692 had been accounted as recurrent expenditure instead of being accounted as work in progress.  | Accept. Action will be taken to correct it in future accounts.   | Accounting should be done according to the new accounting standards. |
| (f) | Employee Guarantee Deposits of Rs.47,942 had been recorded in both the Employees' Deposit Account and the Miscellaneous Deposit Account. Therefore, the Miscellaneous deposit accounts had been overstated by that amount..   | Agreed   | Should be accounted correctly.                                       |
| (g) | According to Chapter 6 of the Sri Lanka Public Sector Accounting Standards for Local Government Authorities, roads, culverts and bridges relevant to previous years had not been re-valuated and accounted. While the roads, culverts and bridges amounting to Rs. 35,066,521 should be accounted under the property, plant and equipment of the year under review however they had been accounted under recurrent expenditure.   | The total amount is accounted as recurring expenses as it is not included in the definition of fixed assets. | The Property, plant and equipment should be properly accounted.      |
| (h) | The prepaid shop rent of Rs. 101,243 had been deducted from the arrears balance shop rent.  | Agreed and action will be taken to correct.  | Shop rent should be properly accounted.                              |

### 1.6.3 Un-reconciled control accounts or records

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#### Audit observations

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There was a difference of Rs.8,631,773 in 4 accounting items in between the value of the financial statements an sub register value.

#### Comment of the Council

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Action will be taken to correct in future.

#### Recommendation

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Action should be taken to correct differences between accounts.

### 1.6.4 Lack of documentary evidence for the audit

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Item	Amount	Lack of Evidence	Comment of the Council	Recommendation
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The necessary schedule for an accounting item amounting to Rs. 15,493,207 had not been submitted for audit .	15,493,207	Schedules showing how the value was calculated	Not correct. Action will be taken to submit an amended report.	The correct value calculation method should be presented.

### 1.7 Non-compliances

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#### 1.7.1 Non-compliance with the rules, regulations and management decisions

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Reference to laws rules and regulations	Non-compliance	Comment of the Council	Recommendation
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R 371(5)	The action had been taken to settle the outstanding balance of Rs.492,046 which is coming continuously.	The action will be taken to write off this advance as any information cannot find by the existing documents for this advance.	Advances should be settled in accordance with Financial Regulations.

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| (ii) F.R571 (2) | The actions had not been taken as per the Financial Regulations for General deposits amounting to Rs. 35,558,106 including contract deposits, mixed deposits, tender deposits exceeding 02 years from the date of deposit | The action will be taken for the deposit income which is more than 02 years.   | Action should be taken in accordance with the Financial Regulations.  |
| (b)             | Sections 6.1 and 7.2 of Chapter xix of the Establishments Code  | Although the average lease period of an official residence under this section is 05 years, the employees of the council have been residing in 07 official quarters owned by the council for more than 24 years and it was observed that unauthorized constructions and business activities are being carried out in these official quarters. | They have been informed about all these matters and legal action has been initiated however the issue is still unresolved and is being addressed. |

**2. Financial Review**  
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**2.1 Financial Result**  
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According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 49,323,906 as against with the recurrent expenditure over revenue amounted to Rs. 6,275,919 in the preceding year.

**2.2 Revenue Administration**  
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**2.2.1 Performance of Revenue collection**  
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<b>Audit observations</b> -----	<b>Comment of the Council</b> -----	<b>Recommendation</b> -----
(a) Assessment Tax ----- The assessment tax balance at the lend of the year under review was Rs. 13,716,283.	In the year 2019, 04 mobile services were conducted and in the first quarter of the year 2020, a mobile service was conducted to motivate the people to pay the assessment tax and to collect the relevant arrears.	Action should be taken to collect the arrears of income.

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| (b) | Shop rent<br>-----<br>The shop rent balance at the end of the year under review was Rs. 4,723,745.                | Further action is being taken to recover these arrears.                | The action should be taken to recover the arrears of shop rent. |
| (c) | Rest house Rent<br>-----<br>The recoverable rent tax for the rest house as at 31 December 2020 was Rs. 2,747,043. | The action had been taken to inform by letters to recover the arrears. | Action should be taken to recover the relevant arrears.         |
| (d) | Fines<br>----<br>The outstanding fine income was Rs. 465,807 as at 31 December 2020.                              | The actions are being taken to recover the outstanding fine.           | Action should be taken to recover the arrears of fines..        |

### 3. **Operating Review.**

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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 **Identified losses**

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The contract for the construction of an interlocking walkway around the Philip Gunawardena Stadium in Avissawella was handed over to a rural elders' society at an estimated cost of Rs. 1,000,000 in 2019 and an advance of Rs. 200,000 had been paid on 31 December 2020. The Sports Officer of the Divisional Secretariat informed that it was not advisable to construct the lane by laying interlocks.

Even then, part of the lane was covered with interlocks. Later, on the instructions of the council, the contract was suspended and the interlocks lay in the lane were removed and brought back to the council premises and the value of the contractor at that time was Rs. 305,979. It was observed that this was a futile expense.