

Peliyagoda Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Peliyagoda 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 net assets/ 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 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 Peliyagoda 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 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

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 which I made on financial statements for the preceding year had not been implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.2.1(d),(e), 1.2.2, 1.2.3,1.2.4, 1.2.5, 1.2.6(b), 2.2.3 and 3.5(a),

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) The property plant and equipment belonging to the Council had not been revalued in accordance with the No. 18.7 and the letter of the Commissioner of Local Authorities No. LGD/10A/4/ ௪.௪./2019 dated 01 February 2021 .	It is informed that the arrangements should be made to carry out the revaluation of assets in the year 2021.	Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.
(b) Property plant and equipment had not been depreciated for the year under review as per No. 6.11 .	It is informed that the actions will be taken in accordance with the Standards in the year 2021.	
(c) The payments made during the year from the capital expenditure grant receipts under Note 10 in the financial statements should be deducted as recognized grants in surplus and the balance should be recorded under	It is informed that the actions will be taken in accordance with the Standards in the year 2021.	

unrecognized grants in surplus under net assets / equity in terms of No. 9.9, without so accounted for, the capital grants of Rs. 15,009,300 received and receivable from external institutions for the year under review had been brought to accounts as capital grants receipts and payments through the general deposit account without so accounted for.

(d) Even though the roads and culverts and other infrastructure items should be brought to accounts under property, plant and equipment as described under EG 3.2 included in the detailed explanations for Sri Lanka Public Sector Accounting Standards for Local Government Institutions, the roads, culverts and drainages developed at a cost of Rs.16,056,292 during the year under review had not been accounted for.

It is informed that the actions will be taken in accordance with the Standards in the year 2021.

Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.

(e) A first statement of assets and liabilities as at 01 January 2020 had not been prepared in terms of No. 18.4 .

It is informed that the actions will be taken to furnish a first statement of assets and liabilities.

(f) Although the fixed assets of the Council should be classified under 14 types in preparing financial statements from the year under review in accordance with No. 3.5 , it had been categorized under 04 assets.

It is informed that the actions will be taken to account for under accurate assets category in the year 2021 .

Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.6.2 Accounting Policies

----- Audit Observation -----	----- Comments of the Council -----	----- Recommendation -----
(a) Although it has been revealed that the property, plant and equipment items are measured to physical cost deducted cumulative depreciation and certain accounting loss, depreciation adjustments to the fixed assets of the Council had not been made.	It is informed that the as a result of failure to carry out a revaluation it is not possible to make a depreciation provision.	It should act in accordance with Accounting principles.
(b) Although it had been revealed that the computer software were recognized in financial statements as an asset, it had not been so done.	It is informed that the actions will be taken to be added to the accurate assets category for the next year.	

1.6.3 Accounting Deficiencies

----- Audit Observation -----	----- Comments of the Council -----	----- Recommendation -----
(a) The balance of contributing to income from capital application account as at 31 December 2020 amounting to Rs.65,431,453 and the balance of contributing to capital application from grants account amounting to Rs.26,891,063 had been credited to reserve fund instead of crediting to accumulated fund.	It is informed that the actions will be taken to correct by the final account in the year 2021.	It should be accurately accounted for.
(b) Although all capital expenditure should be accounted for as fixed assets/work done without debiting to all the Capital Expenditure Heads, as a result of the capital expenditure incurred during the year under review amounting to Rs. 3,597,865 was credited to the expenditure Heads, the surplus for the year under review had been understated by the same amount.	It is informed that the actions will be taken to correct by the final account in the year 2021.	It should be accurately accounted for.

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| (c) | The value of 07 accounts which does not match with account balances and documented balances remained at the end of the year under review had been recorded to the reserves and provisions account by debiting 07 accounts amounting to Rs. 27,873,148 through journal entry No. 49 and by crediting 03 accounts amounting to Rs. 19,026,216 through journal entry No. 50, and it had been brought to accounts considering the balances appear in the schedules presented with financial statements. | It is informed that the further instructions have been given to adjust the ledger balances with documents by adjusting unreconciled balances to the reserve and provision account. | The adjustments should be made identifying the accurate balance. |
| (d) | The creditors totalled to Rs.10,291,421 had been overstated as 21 creditor balances amounting to Rs. 8,641,755 settled during the period in between the years 2015-2020 and for 4 cancelled projects provided as creditors amounting to Rs. 1,649,666. | It is informed that the actions will be taken to correct by the final account in the year 2021. | Accurate balance should be accounted for. |
| (e) | Although the reimbursement of salaries received to the Bank as direct remittances and reimbursement of Member allowances was Rs. 45, 802,500 as per the bank statement , thus the value transferred from journal note 46 to comprehensive revenue account as recurrent revenue grants was Rs. 64,689,250, a value of Rs. 18,886,750 had been overstated as revenue assistance. | It is informed that the actions will be taken to correct by the final account in the year 2021. | It should be accurately accounted for. |
| (f) | Although the value of the land and buildings owned by the Council had not been brought to accounts and only the cost of the construction the front office under land and buildings amounting to Rs.377,399 had been accounted for. | It is informed that, as a result of failure to recalculation of assets, the land and buildings incurred during the year under review were added to the asset. | Total assets should be accounted for |

1.6.4 Lack of Evidence for Audit

Audit Observation

Comments of the Council

Recommendation

The detailed information required to the audit pertaining to the 02 account items totalled to Rs. 889,803 had not been submitted.

It is informed that the actions will be taken to submit in future years.

The information which confirms the account balances should be submitted.

2. Financial Review

2.1 Financial Results

The surplus of the Council for the year ended 31 December 2020 in the Financial Statements submitted was Rs. 19,210,419 as per the Sri Lanka Public Sector Accounting Standards for Local Government Institutions, the revenue higher than recurrent expenditure for the preceding year was Rs. 807,413 .

3. Operating Review

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 04 of the Urban Council Ordinance are as follows.

3.1 Useless Expenditure

Audit Observation

An agreement had been entered into for a period from 01 February 2019 to 31 January 2020 to purchase a new computer software system from a private company on 01 February 2019 . Attention had not been drawn to upgrade the software system to suit the Council during the one year period agreed with the Company and it had been informed that the renewal of the agreement after 31 January 2020 is problematic by making aware that there were defects in the system by 03 November 2020 that is 9 months after the end of the contract period. Despite a sum of Rs.185,000 had been spent on this computer software system because it was decided to suspend it and use another computer software system, the above cost had been an useless expense.

Comments of the Council

A most efficient software of Nekfa Company is used by the Council for this purpose at present.

Recommendation

Arrangements should be to enter into agreements in a way that benefits the Council.