

Kalutara Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalutara 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). 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 Kalutara 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 recommendations which I made on financial statements for the preceding year are included 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	Comments of the Council	Recommendation
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(a) Cost of 04 items of building construction and upgrades during the year under review amounting to Rs. 2,590,113 had not been capitalized as lands and buildings.	Because instructions were not received in training classes, those were brought to accounts as recurrent expenses.	Building improvements should be accounted for as fixed assets.
(b) Although the depreciation value of non-current assets at the end of the year under review was Rs.10,879,186, it had been accounted for in the financial statements as Rs. 1,902,799 due to erroneous computation .	The depreciation of fixed assets received as donations has not been made.	It should be accurately accounted for.
(c) According to the Register of Lands, there are 98 acres and 90 rods of land and those lands had not been assessed and accounted for.	The Code numbers which were not introduced according to the Municipal Council system up to the year 2020 has been stipulated to be accounted for. Steps will be taken to enter into the accounts by the year 2021 .	

2. Financial Review

2.1 Financial Results

The income exceeding the recurrent expenditure of the Council for the year ended 31 December 2020 as per the financial statements submitted was Rs. 2,892,053 and the corresponding income exceeding the recurrent expenditure of the preceding year was Rs. 5,870,274 .

2.2 Revenue Administration

2.2.1 Performance on Collection of Revenue

Audit Observation

Comments of the Council

Recommendation

- (a) According to the age analysis of arrears of rates , an arrears of Rs. 443,961 older than 10 years , Rs. 756,609 in between 05-10 years, Rs. 1,413,875 in between 03 - 05 years, Rs. 3,682,470 in between 01- 02 years had to be recovered.
- (b) The balance in between 1-3 years within the age analysis of arrears of rent was Rs. 102,674 .
- (c) The stamp duties receivable from the Chief Secretary of the Provincial Council and Other Authorities was Rs. 70,000,000 .

- Actions will be taken to recover the arrears in future.
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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 Assets Management

Audit Observation

A computer software system consisting of 10 devices valued at Rs.5,014,500 had been purchased to computerize the office works of the year 2017 and 05 devices were inactive even by 31 December 2020 and it was observed that 05 devices were underutilized.

Comments of the Council

The steps will be taken to utilize in future.

Recommendation

All the computers should be utilized.