

Kegalle Urban Council - 2021

1 Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Kegalle Urban Council including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021 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 Councils Ordinance (Chapter 255) and the Provision 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 Kegalle Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

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 Generally Accepted Accounting Practices, 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 includes 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 financial statements presented includes all the recommendations made by me in the previous year 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
(a) To be accounted under Sports and Equipment of Rs. 1,875,000 where correcting the accounting under furniture and fitting due to crediting the Machinery and Equipment account, the Machinery and Equipment account was understated by that amount and the furniture and Equipment account was overstated by that amount.	That there has been an omission in accounting and It was also informed that the journal entries have been passed for correction when preparation of accounts for the year 2022.	Accounts should be corrected.
(b) Payable on behalf of Provincial Council construction of Rs. 3,628,504 has not been accounted as creditors as at end of the year under review Out of which Rs. 3,005,385 for the year 2021 and Rs. 623,119 was also for the previous year, so that the surplus and accumulated fund of the year under review has been overstated by the same amount respectively.	That there has been an omission in accounting and It was also informed that the journal entries have been passed for correction when preparation of accounts for the year 2022.	Accounts should be corrected.
(c) Although the contract for the renovation of the new market complex near the clock tower was worth Rs. 8,643,120, and due to it has been accounted as Rs 9,391,616 that the expenditure for the year has been overstated by Rs. 748,496.	As this is a renovation work, the payment may be amended based on the requirement while it is continued. It is informed that the estimated amount of the construction has not been exceeded and therefore the estimated amount has been accounted.	The correct value should be accounted.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
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There was a difference of Rs. 6,035,864 in the stock on hand account at the end of the year under review between the balance as per financial statements and the balance as per supporting documents.	It was informed that the difference pointed out is being checked and work is being done to correct.	Differences should be identified and the balance should be corrected.

1.6.3 Unauthorized Transactions

Description of unauthorized transaction	Comments of the Council	Recommendation
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Though 11 revenue subjects of Rs. 10,794,081 in revenue has been written off due to Corona epidemic with the approval of the Saba during the year under review. But the governor's approval has not been obtained for that.	It was informed that it has been decided not to collect these rent charges as per the decision taken in the General Meetings held on 12th August 2021 and 29th September 2021,	Governor's approval should be obtained for written off.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs 81,741,931 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 71,627,845 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
Rates and Taxes		
The balance of rate tax to be collected from 3670 rating units belonging to the private sector was Rs. 3,215,693 as at the end of the year under review and out of which Rs. 1,660,455 for the year under review and action has not been taken to recover the uncertain balance of Rs. 1,555,238 as per section 170 of the Urban council Ordinance.	It was informed that not much attention was paid to the prohibition of property due to humanitarian reasons due to the Covid epidemic in the year 2021.	Actions should be taken to recover the due incomes.