

Thangalla Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thangalla Urban Council for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, was carried out 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 Section 181 (1) of Urban Council Ordinance (Cap.255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Thangalla Urban Council as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 Council
- Whether the Urban Council 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 are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented 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 -----	Comment of the Council -----	Recommendation -----
(a.) Stamp Duty amounting to Rs.8,665,660 regarding the year 2014 and the year 2018 lapsed over 02 years had been stated as a receivable balances in the year under review even though it had been stated as not receivable according to the Southern Province Stamp Duty Reversal Ordinance No.04 of 1994.	Actions would be taken to make it correct by the final accounts for the year 2022.	The receivable income should be stated accurately.
(b.) Provisions for the Creditors had been made of RS.4,742,835 on 04 Projects not made the agreements in the year under review and implemented or not implemented within the year therefore the Provisions for the Creditors had been overstated by that amount.	Actions would be taken to make it correct by the final accounts for the year 2022.	The Provisions for the creditors should be stated accurately.
(c.) Capital Expenditure of Rs.1,104,169 spent during the year under review had been stated as recurrent expenditure.	Actions would be taken to make it correct in the future.	The Expenditure should be categorized correctly.

- (d.) The Fixed Deposits Interests of Rs.439,823 for the year under review had not been stated under investment activities in the cash flow statement during the year under review. Actions would be taken to make it correct in the future. The Cash Flow Statement should be made accurately.
- (e.) The Library Partnership Fees of Rs.111,130 from the year 2015 to the year under review had not been recognized as an income and stated as a deposit. Actions would be taken to take it into the revenue in the year 2022. The revenue should be recognized accurately.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs.14,704,440 for the year ended on 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.16,518,527.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
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Rates and Taxes -----		
Action had not been taken to recover receivable rates and taxes regarding 1574 units of Rs.4,230,067 and from that arrears Rs.113,111 had been from Government Institutions.	Actions would be taken to recover the arrears.	The arrears revenue should be recovered as soon as possible.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
Actions had not been taken according to the section 77 of the Urban Council Ordinance against 02 persons who constructed 02 unauthorized constructions within 750 square feet to 2000 square feet without asking for necessary approval by forwarding a Building Plan Application to the Sabha.	The constructors had been informed acquire the approval for the unauthorized constructions.	Actions should be taken to authorize the unauthorized constructions.