

## **Chilaw Urban Council - 2021**

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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 Chilaw Urban Council for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, statement of changes in net assets and cash flow statement including a summary of significant accounting policies and other explanatory information, 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 Sub-section 181 (1) of the 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 Chilaw 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**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, 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)**

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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 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 Urban 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

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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 required by 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 required by Section 6(i)(d)(iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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| Audit Observation<br>-----  | Comment of the Council<br>-----   | Recommendation<br>-----                                    |
|---|---|--|
| (a) The value of the items of property, plant and equipment as per the account and the value as per the books had been overstated by Rs.8,174,165 and understated by Rs.9,214,154 in the financial statements as at 31 December of the year under review                  | It is informed that a document of the currently discovered facts for these changes will be prepared and relevant adjustments will be made in the financial statements and fixed assets registers. | This should be correctly accounted for by journal entries. |
| (b) The amount of Rs. 470,675, which is the under-allocation of stamp duty receivable relating to the year 2018, had not been adjusted to the accounts.   | It is informed that the corrections will be made by financial statements of the year 2022.  |  |
| (c) The fine amount of Rs.934,678 recovered during the recovery of arrears of assessment had been brought to account as the receipt of assessment. As a result, the arrears of assessment as at 31 December of the year under review had been understated by that amount. | It is informed that action will be taken to correct that error.   | This should be correctly accounted for by journal entries. |
| (d) The assessment value of Rs.177,505 received in the year under review relating to the ensuing year had been brought to account as income of the year under review.   | It is informed that action will be taken to correct that error.   |  |

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| (e) | Six cases that the legal action had been taken by the Urban Council against tax defaulters had not been disclosed in the financial statements.  | It is informed that action will be taken to present this in the financial statements 2022.                | Disclosures should be made correctly.                        |
| (f) | The total contract value related to 03 industries which did not calculate the value of work done in the reviewed year amounting to Rs.2,754,675 had been brought to account as industrial creditor. | It is informed that action will be taken to identify and account for the value of works as the creditors. | Correct value should be brought to account as the creditors. |

### 1.6.2 Non-reconciled Control Accounts or Reports

| Audit Observation<br>-----   | Comment of the Council<br>-----                                   | Recommendation<br>-----  |
|--|---|--|
| A difference of Rs.12,604,101 was observed balances in the schedules presented together with the financial statements and the balances in the accounts in relation to 12 items of account. | It is informed that action will be taken to make the corrections. | Action should be taken to correct the documents and account for the correct balance. |

## 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. 30,322,519 as at 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 32,013,571.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

| Audit Observation<br>-----   | Comment of the Council<br>-----  | Recommendation<br>-----  |
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| (a) <b>Rates and Taxes</b><br>-----<br>Rates of Rs. 50,868,578 remained recoverable from 6552 units as at 31 December of the year under review. Out of that, a sum of Rs. 6,718,007 had been | It is informed that action will be taken to recover the arrears in the future. | Action should be taken to recover the Rates in arrears promptly. |

recovered from 22 units relevant to the public sector and from 1009 units relevant to private sector as at 15 September 2022 and Rs. 7,226,520 relating to private sector had been identified as irrecoverable from 759 units. The remaining balance of Rs. 36,924,051 was due from 94 units relevant to the public sector and 4726 units relevant to the private sector.

(b) **Rent**

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There was arrears of rent of Rs.41,020,728 from 132 shops as at December 31 of the year under review. August Out of that, Rs.1,114,490 had been recovered from 72 shops as at 31 August 2022 and Rs.25,186,548 from 41 shops had been identified as uncollectible. The remaining balance due from 19 shops was Rs. 14,719,690.

It is informed that action will be taken to recover the arrears in the future.

Action should be taken to recover the remaining shops rent in arrears promptly.

(c) **Other Income**

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An amount of Rs.1,341,015 was due to the Urban Council from a private company in relation to the reviewed year and previous years. A sum of Rs.309,365 of that amount had been recovered as at 31 August 2022 and the remaining balance was Rs.1,031,650.

It is informed that the institution has been informed through the letters to recover the revenue in arrears.

Action should be taken to recover the outstanding management fee income,