

Balangoda Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Balangoda 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 Balangoda Urban Council as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 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)

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.

- 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.
- 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) The penalties as on 31 December 2021 due to non-payment of rates before due dates had not been accounted. As such, the revenue debtors and accumulated fund had been under stated by Rs. 1,262,127 at the end of the year under review.	This error will be rectified by Journal entry No. 01 during the preparation of the financial statements of the year 2022.	Accounts should be corrected.
(b) Although the long-term loan balance taken by the council as debt capital amounted to Rs. 93,121,442 had been shown under non-current liabilities in the financial statements, the debt capital portion to be paid in the year 2022 amounted to Rs. 6,499,491 had not been separately stated under current liability.	Action will be taken to state the long-term portion and current portion of the debt capital separately from the year 2022.	Accounts should be corrected.

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| (c) | A sum of Rs. 51,934 paid in the year 2022 in relation to the year under review had not been accounted as expenses of the year, as such, the operational expenses and creditors balance were under stated by that amount. | This error will be rectified by Journal entry No. 03 during the year 2022. | Accounts should be corrected. |
| (d) | The cost of the auctioned equipment in the year 2021, as per the board of survey recommendations of the year 2020, amounted to Rs. 271,763 had not been removed from asset accounts, as such, the stock balance by Rs. 146,913 and the balance of non-current assets by Rs. 124,850 were over stated as at 31 December 2021. | This error will be rectified by Journal entry No. 04 during the year 2022. | The cost of the disposal assets should be removed from the accounts. |
| (e) | The interest receivable on fixed deposits for the year under review amounted to Rs. 129,774 had not been accounted for. As such, the operating income of the year and current assets were under stated by that amount. | The interest on fixed deposits will be recognized at maturity. | The interest income relevant to the year should be accounted for. |

1.6.2 Unreconciled Control Accounts and Records

Audit Observation -----	Comment of the Council -----	Recommendation -----
A difference of Rs. 1,605,502 was shown between the stock ledger and stock control account.	This error will be rectified in the future.	The balances shown in the financial statements should be reconciled with the corresponding source documents.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding of the recurrent expenditure of the Council amounted to Rs. 15,063,975 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. 23,422,086.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
(a.) Rates and Taxes		
The Council was unable to collect due rates and taxes amounted to Rs.2,418,880 relevant to the year under review and due rates and taxes amounted to Rs. 3,443,614 relevant to the previous year's even by 31 March 2022. Further, an age analysis relevant to that had not been prepared.	Actions had been taken to recover the due rates and rates of the current year. Also, properties in excess of arrears had been informed by letters. Also, actions are being taken to conduct special mobile service programs to collect rates from the beginning of the year 2022.	Action should be taken to collect the revenue in arrears.
(b.) Rent		
The rent in arrears of Rs.199,250 for 6 months to 29 months period from 14 unauthorized stalls in 38.43 total square meters in front of the Imperial Cinema Hall had not been collected even by April 2022. A rent of Rs, 1500 per month at Rs. 50 per day was being charged as shop rent and actions had not been taken by the Council to amend the rent at least once in 05 years.	A monthly rent had been charged based on the rent charged from the street vendors because the stalls were built temporarily in a small space by the owners of those stalls.	Actions should be taken collect the income in arrears.

3. Operational 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.

Idle or Under Utilized Property, Plant and Equipment

Audit Observation	Comment of the Council	Recommendation
110 electricity bulbs worth of Rs. 98,450 procured on 25 October 2017 without identify	The reasons for this situation were occurred due to the increase in maintenance costs	Requirement should be clearly identified for the procure items and assets

the requirement and proper technical evaluation and 50 electricity bulbs worth of Rs. 257,500 procured on 18 February 2020 were remained idle even by 31 March 2022. for the bulbs procured in 2017 for the street lights and, although quotations were called, shortage of the items in the market of other items to be used together with the materials procured for lighting the playground. should be utilized effectively.

4. Accountability and Good Governance

Budgetary Control

Audit Observation	Comment of the Council	Recommendation
<p>The Governor of Sabaragamuwa Province had given the council the authority to spend only recurrent expenditure for the continuation of the activities of the Urban Council in the year 2021 through the Gazette No. 2211/57 due to the council had not taken action to approve the budget for the year under review.</p> <p>Due to the non-responsibility of the concerned persons, despite the fact that it is an inalienable responsibility of the chairman and the members according to the 255th Authority Urban Council Ordinance to ensure the continuity of the affairs of the council, the provision of Rs. 53,075,000 allocated by the annual budget for the development activities could not be implemented as the lack of legal authority to incur capital expenditure in the year 2021.</p>	<p>The political policies and decisions taken by the Honorable Chairman and the Honorable members were affected for the annual budget of the year 2021 and the comments pointed out are correct.</p>	<p>According to the 255th Authority Urban Council Ordinance Act, the chairman and other members should act for the continuation of the affairs of the council.</p>