

Kesbewa Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kesbewa Urban Council including the financial statements for the year ended 31 December 2020 Statement of assets and liabilities as at 31 December 2020, Income Comprehensive Statement, 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 provisions 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 Kesbewa 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 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 **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 includes specific provisions for following requirements.

- 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.
- 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) According to the Assets Management Circular No. 4/2018 and dated 31 December 2018 of the Ministry of Finance and Mass Media, although all fixed assets owned by the institution should be revaluated and accounted for at the time of submission of financial statements for the year 2020 , the council had not revaluated library books , computers, computer software, roads, machinery and furniture, and certain vehicles.	According to the instructions of the Assets Management Circular No. 4/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media, motor cars have been revaluated in the financial statements for the year 2020 and the actual value of the expenditure of the Council on streets and roads had been taken into account as the revaluation value.	All fixed assets should be revaluated and account for.
(b) Although the withdrawal of investments are Rs.35,288,875 according to the cash flow statement it was Rs.69,284,456 and cash flow generated from investments had been overstated by Rs.33,995,581.	Accept. It was confirmed that correct Fixed Deposit / (Investment) Withdrawals - net value was Rs.38,961,073.	Action should be taken to account correctly.
(c) The purchase value of the property, plant and equipment under the investment activities in the Cash Flow Statement was shown as Rs.618,288,748 but it was Rs.602,055,211. Therefore, the value of cash, cash equivalents generated from investments had been understated by Rs.16,233,537.	Accept.	Action should be taken to account correctly.

- (d) Depreciation for the year was included the double entry records shown as Rs.128,280,347 but under Note number (19) property plant and equipment in the financial statements it was shown as Rs.127,943,235 .
- The correct depreciation value of Rs.127,943,235 was shown in the financial statements. Accordingly, action will be taken to correct the printing error in the journal entry in the future.
- Action should be taken to account correctly.
- (e) Although capital expenditure grant value received in cash was Rs.211,634,900 according to the cash flow statement it was stated as Rs.109,002,052. As a result value of cash, cash equivalents generated from the cash flow statement was overstated by Rs.102,632,848.
- The actual capital expenditure received in cash was Rs.211,634,900. Accordingly, accept that the cash flow statement should be corrected.
- Action should be taken to account correctly.

2. Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2020 amounted to Rs.222,108,148 as against the excess of revenue over recurrent expenditure amounted to Rs.84,546,284 in the preceding year.

2.1 Revenue Administration

2.1.1 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
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(a) Rates and Taxes		

The outstanding assessment tax balance as at 31 December 2020 was Rs.66,065,078.	Not Replied.	Action should be taken to recover arrears of income.
(b) Rent		

The outstanding balance due from 156 long-term lease properties of the Council was Rs.2,909,875 as at 31 December 2020.	A sum of Rs.565,960 had been recovered from 28 properties.	Action should be taken to recover arrears of income.