

Chilaw Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the **Chilaw** Urban Council for the year 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial operations and the statement of changes in net assets for the year then ended and 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 (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 accompanying financial statements give a true and fair view of the financial position of the Chilaw Urban Council as at 31 December 2020, 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 on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 (Responsibilities of Auditors 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 exercise professional judgment and maintain professional skepticism 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, 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 Other Legal Requirements relating to Reports

Special provision with regard to the following were included in the National Audit Act No. 19 of 2018.

- (a) The financial statements of the Urban Council were similar to the previous year as per the requirement pointed out in Section 6(1)(d)(III) of the National Audit Act No. 19 of 2018.
- (b) Recommendations made by me during the previous year were included in the financial statements presented in terms of requirements pointed out in Section 6(I) (d) (IV) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations relating to Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observations	Comments of the Council	Recommendation
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(a) According to the financial statements presented as at 31 December of the year under review, the value as per accounts and books relating to item of property, plant and equipment had been overstated by Rs.9,927,421 and the value relating to other two items of accounts had been understated by Rs.11,550,477.	I will take action to rectify these balances.	It should be correctly brought to account.
(b) The stock of stores items had been understated in the accounts by Rs.438,431.	I inform you that action will be taken to rectify it.	It should be correctly brought to account.
(c) Action had not been taken to write off the overprovision of stamp fees for the year 2017 amounting to Rs.897,380 from the accounts.	I inform you that action will be taken to rectify it.	It should be correctly brought to account.
(d) Fines amounting to Rs.514,677 recovered while making recoveries of arrears of rates had been accounted as receipts of rates.	I inform you that recovery of fines will be accounted separately.	A Revenue Head for fines should be created and the fines should be accounted.

(e) The income of displaying board fees amounting to Rs.399,300 receivable for the year under review had been completely omitted in the accounts.	Action will be taken in future to recover the above amount.	Action should be taken to recover the displaying board fee properly and bring to account.
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1.6.2 Unreconciled Control Account or Records

Audit Observations	Comments of the Council	Recommendation
There was a difference of Rs.20,250,061 as the value relating to 11 items of accounts according to the financial statements was Rs.72,556,071 whereas the value according to the schedules and reports was Rs.52,306,010.	I will take action in future to rectify it.	Action should be taken to rectify the documents and bring to account correctly.

1.6.3 Unauthorized Transactions

Details relating to Unauthorized Transactions	Comments of the Council	Recommendation
(a) A sum of Rs.4,473,215 out of the billed value for the year under review relating to 27 stalls given on long term rental basis had been written off based on the decision of the Council dated 20 May 2021 without the approval of the Commissioner of the Local Government and the subject Minister.	I would like to inform you that action will be taken to recover after carrying out the amendment activities of new rentals by the Department of Valuation.	Write off should be made with the approval of the Commissioner of Local Government and the subject Minister.
(b) A sum of Rs.3,427,199 out of the billed value relating to 15 properties leased out for the year under review had been written off by the decision of the Finance Committee No.19 dated 28 January 2021 without the approval of the Commissioner of the Local Government and the subject Minister.	I point out t it had been referred to the approval of the Commissioner of Local Government.	Write off should be made with the approval of the Commissioner of Local Government and the subject Minister.

1.6.4 Lack of Documentary Evidence for Audit

Audit Observations	Comments of the Council	Recommendation
Information required for audit relating to 07 items of account aggregating Rs.305,906,922 had not been presented.	I inform you that those information will be submitted in future with detail schedule.	Relevant schedules should be submitted with final accounts.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs.32,013,571 as compared with the excess of revenue over recurrent expenditure of the previous year amounted to Rs.20,953,270.

2.2 Revenue Administration

2.2.1 Performance of the Collection of Revenue

Audit Observations	Comments of the Council	Recommendation
(a) Rates and Taxes Rates and taxes amounting to Rs.46,907,708 had to be recovered as at 31 December 2020 from the properties on which rates and taxes to be recovered in the area of authority of the Urban Council. According to the provision of the Urban Council Ordinance, any action had not been taken relating to recovery of arrears of rates and taxes. Further, no action had been taken to carry out reassessment.	I inform you that action will be taken in future to recover the above amount.	Action should be taken to expedite the recovery of arrears of rates and taxes.

(b) Rent

Arrears of stall rent income as at 31 December 2020 amounted to Rs.34,867,858 and action had not been taken to recover the above arrears income. Even though the agreement period of 37 stalls belonging to the Council had expired by 31 December 2020, action had not been taken to enter into agreements again. Further, the assessed lease rent for 285 stalls had not been revised and as such the Urban Council had deprived very large income which could be obtained by the Council.

I would like to inform you that action will be taken for recoveries and renew the lease agreement after carrying out the activities for revision of new stall rent by the Department of Valuation.

Action should be taken to expedite the recovery of arrears of stall rent.

(c) Stamp Fees

Stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2020 amounted to Rs.51,819,070 and action had not been taken to recover this amount.

Amount receivable was Rs.52,716,450.

Action should be taken to recover the stamp fees in an updated manner.

3. Operating Review

Matters observed with regard to fulfilling regulation and administration of facts relating to public health, public utility services and public road, with the protection comfort, convenience and welfare of the people, by the Council under Section 3 of the Urban Council Ordinance, are shown below.

3.1 Management Inefficiencies

----- Audit Observations -----	Comments of the Council -----	Recommendation -----
----- Accounts Receivables -----		
(a) Action had not been taken to settle the prepayment balance of Rs.8,871,877 brought forward since year 2010 and the value of deposit of Rs.73,940 made by the Council. Further, the value of account balances payable as at the end of the year under review was Rs.29,467,040 and action had not been taken to pay a sum of Rs.9,021,520 payable as the contribution for Local Government Pension.	I inform you that action will be taken to rectify it.	Prompt action should be taken to identify and settle the balances brought forward. Action should be taken to identify and settle the contribution for Local Government Pension.
(b) Necessary settlement had not been made in respect of debit balance of Rs.2,882,489 remained in the Value Added Tax Account as at 31 December 2020.	It was handed over to the Department of Income Tax, Negombo.	Necessary settlement should be made by obtaining instructions of the Department of Inland Revenue.