

Kathankudy Urban Council – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kathankudy Urban Council including the financial statements for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, Income and Expenditure Account, 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 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 Kathankudy Urban Council as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Principles.

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 (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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018 recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Policies

Audit Observation -----	Comments of the Council -----	Recommendation -----
The accounting policies adopted by the council for preparing the financial statements for the year under review were not disclosed in the financial statements.	Steps will be taken to introduce policies in the future.	Accounting policies should be disclosed in the financial statements.

1.6.2 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) At the end of the year under review, the closing stock of the Solid Waste Management Center was 28,045 kg of organic manure, but its value was not disclosed in the financial statements..	Action will be taken to rectify.	Financial statements should be prepared accurately.
(b) The total income for the year under review was shown as Rs.9,279,501 in the accounts including the actual value up to March 2020 and the estimated value for April to December, without assessed and shown as billed income of the actual stamp duty in the year under review.	Action will be taken to rectify.	Financial statements should be prepared accurately.

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| (c) | The total income for the year under review was shown as Rs.5,898,315 in the accounts including the actual value up to October 2020 and the estimated value for November and December, without assessed and shown as billed income of the actual court fine fees in the year under review. | Action will be taken to rectify. | Financial statements should be prepared accurately. |
| (d) | The council's motor vehicles, plant and machinery, land and buildings, and furniture fittings were presented in the financial statements for a long time without revaluing. | Action will be taken to rectify. | Financial statements should be prepared accurately. |
| (e) | The council had received the Kawasima Machine valued at 89.5 million rupees in 2019, under the solid waste disposal project, but its value had not been disclosed in the financial statements at the end of the year under review. | Action will be taken to rectify. | Financial statements should be prepared accurately. |
| (f) | Also, the Kawasima machine was damaged by fire in the year 2020 and the value of the damage caused by the fire was Rs. 27,774,030 which was not disclosed in the financial statements even at the end of the year under review. | Action will be taken to rectify. | Financial statements should be prepared accurately. |

2. Financial Review

2.1 Financial Result

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.18,709,100 as compared with excess of revenue over recurrent expenditure amounted to Rs.11,410,951 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
Court fines and Stamp duty Court fines amounting to Rs.5,308,557 as on 31 October 2020 and stamp duty amounting to Rs.2,679,501 as on 31 March 2020 were due from the Chief Secretary of the Provincial Council and other authorities.	Action will be taken to recover.	Arrangements should be made to get it in due time.