

Boralesgamuwa Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Boralesgamuwa Urban Council including the financial statements for the year ended 31 December 2021 Statement of assets and liabilities as at 31 December 2021, 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). 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 Boralesgamuwa Urban Council as at 31 December 2021, 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 include specific provisions for following requirements.

- (a) 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.
- (b) 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 Financial Statements

1.6.1 Accounting deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) According to the Asset Management Circular No. 4/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media, and as per the letter of the Local Government Assistant Commissioner dated 1 February 2021 and No.LGD/10A/4/N.A /2019 all fixed assets owned by the institution should be revaluated for at the time of submission of financial statements for the year 2020, but the Urban Council had not revaluated the assets in the year 2021.	Action will be taken assets to be revaluated and submitted to audit before the end of the year 2022.	Action should be taken to revaluate all fixed assets.
(b) Although Rs.35,818,405 had been received as capital grants for the year under review, this capital grants had not been shown under Note No. 10 in the Statement of Comprehensive Income and under Net Assets/Equity in the Statement of Assets and Liabilities.	Action will be taken to correct at the account of the year 2022.	Action should be taken to account correctly.

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| (c) | A percentage equal to the depreciation rate for the projects carried out with the capital grant value of Rs.22,470,773 related to the previous year should be shown under note No. 5 (assignments from the government for non-recurring expenses) of the comprehensive income statement, but it had not been shown in the financial statements as the assets and depreciation were not properly accounted for. | Action will be taken to correct at the account of the year 2022. | Should be act in accordance with accounting standards. |
| (d) | After adjusting the value from the capital grant value of the previous year under Note No. 5, the remaining value had not been shown under unrecognized capital grants in the statement of assets and liabilities. | Correction will be made in the final account of the year 2022. | Action should be taken to account correctly. |
| (e) | The value of 06 work in progress projects funded by the Council had not been valued and not shown in the financial statements under capital grants. | Action will be taken to correct when prepare the accounts in the year 2022. | Action should be taken to correctly account the work in progress. |
| (f) | The debit balance of Rs.14,222,618 in the suspense account and the unidentified credit balance of Rs.23,792,237 had not been identified and settled. | Action will be taken to identify the balance of the suspense account and the balances that have not been identified. | Action should be taken to account properly. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) When reconciling the balances relating to two items between utility documents/reports with financial statements, it had been shown overstatement of Rs.1,523,010 and understatement of Rs.21,290 in the financial statements .	Action will be taken to correct in coming year.	Actions should be taken to identify and correct the differences.
(b) According to the schedule, the value of the 30 projects completed with the Council Fund was Rs.25,419,396, but according to the financial statements, the project value was Rs.31,148,017, and a difference of Rs.5,728,621 was observed in the value of roads under property, plant and equipment.	Action will be taken to correct it from the accounts of the year 2022.	Action should be taken to Properly account.

1.6.3 Lack of Written Evidence for Audit

Audit Observation -----	Comments of the Council -----	Recommendation -----
Schedules had not been submitted to verify the miscellaneous deposit balances valued at Rs.8,262,821.	Will be prepare and submit in future.	Schedules should be submitted to confirm the value mentioned in the observations.

2. Financial review

2.1 Financial results

According to the financial statements presented, the income over the recurrent expenditure of the Council for the year ended 31 December 2021 was Rs.23,913,815 against the recurrent expenditure over income of the previous year Rs.2,887,122.

2.2 Financial control

Audit Observation	Comment of the Council	Recommendation
In the year under review, 24 cheques valued at Rs.474,282 written to be issued to the customers were retained until 27 May 2022 without being delivered to the respective customers.	Although the number of cheques that were not presented to the customers was shown as 24 in the audit, according to our documents, there are only 21 cheques as of 31.12.2021. Its value is Rs.248,416. Due to the bad situation in the country and the Corona pandemic, there was a lack of customers coming to the institution to get the cheques, so there was a lack of issuing cheques. As the pandemic situation is decreasing at present, arrangements will be made to issue cheques to the relevant persons in the future.	Written Cheques should be issued to customers immediately.

2.3 Revenue Administration

2.3.1 Revenue Collection Performance

The Following are the observations regarding the performance of revenue collection of the council.

Audit Observation	Comment of the Council	Recommendation
(a) Rates and taxes		
(i) Although the billed rates and taxes revenue for the year under review was Rs.27,383,560, the council had failed to recover Rs.9,901,089 or 36 per cent during the year.	Sixty four per cent of the billed revenue has been recovered for the year under review. Those who do not pay the last quarter for the year under review. Will have to legal action that can be taken only before the 10 th day of the first month of the first quarter of the coming year. Also, in the year 2021 due to the Covid pandemic situation in the country and due to the close of the country, the restraining action had not been taken, and currently warrants are issued to the defaulters and the arrears recovery is to be done.	Action should be taken to recover the arrears of income.

(ii) At the end of last year, the rates debtor balance was Rs.20,380,136, but during year, Rs.7,669,054 had been recovered the year under review and the Council had failed to recover Rs.12,711,082. Accordingly, , the total outstanding rates and tax balance was Rs.28,269,300 as at 31 December 2021.

Thirty eight per cent of the total outstanding as at 31.12.2021 had been recovered. During this period due to the covid pandemic situation and due to the closure of the country, the restraining of property was not done and at present warrants are issued to the defaulters and the arrears are to be collected.

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(b) **Rent**

- (i) Although the billed rental income for the year under review for commercial space was Rs.990,300, Rs.415,554 or 41 per cent of it had not been recovered during the year.
- Due to the period lockdown of the country from April to August 2021 due to the Covid pandemic situation in the year 2021, these business places had to be closed. Therefore, notice letters have been issued to unpaid business premises even after providing rent relief as per the circular.
- Action should be taken to recover the arrears of income.
- (ii) According to the condition No.12 of the agreement and the Local Government Commissioner's Circular 1980/46 dated on 31 December 1980, the shop rent should be revised every five years, but after 2009, no revision or contract renewal had been made.
- In order to renew the contracts in 2019, it was informed that the contracted shop owners of the trading places should come to this council and signed agreements.
- Should be done according to the agreement.
- But all the shop owners expressed their opposition to come to agreements and behaved in a unrest manner in the meeting. At that time, the Commissioner of Local Government was informed and taken instruction and was told to stop the related activities temporarily due to the situation.
- (iii) Lease agreements have to be renewed every three years, but 39 shops agreements had not been renewed and three shops were operating without signing agreements.
- There is no parking facilities at these places and the size of number of shops have been reduced due to widening of the road. As these trading places are to be demolished and it is proposed
- Agreements should be renewed once in 03 years

to be established in new places at the road development, an assessment was made. It is expected to sign new contract when the new locations are established.

3 Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comment of the Council -----	Recommendation -----
<p>Provision of security services -----</p> <p>In the year under review, Rs.6,250,419 had been paid for the security services obtained from Rakna Lanka Company Limited without calling tenders. Also, the security officers worked for more than 02 shifts of 12 hours (01 day) and some security officers worked for more than 10 consecutive days.</p>	<p>Although the security services was obtained from the civil security forces, according to the letter number CSD/08/12/01/01 dated 2020.01.13 of the Civil Security Department, the relevant troops have been withdrawn and the security duties have been assigned to the Rakna Lanka Security Company.</p> <p>However, from the end of 2022, tenders have been called for the supplying of security services from the agency. The security officers are deployed by the relevant organization and will be inquired about this from the Rakna Lanka Security Company and proceed further.</p>	<p>Action should be taken to call tenders annually.</p>

3.2 Transactions of Contentions Nature

Audit Observation -----	Comment of the Council -----	Recommendation -----
<p>Although license fees had been collected from 161 shops for the issues of trading licenses, licenses had not issued to those businesses till 31 January 2022.</p>	<p>Due to the non-receipt of the public health inspector's recommendation for the issuance of licenses due to the Covid pandemic situation in 2021, the issues of some licenses were delayed, but fees have been charged.</p>	<p>Trading licenses should be issued.</p>

3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
<p>(a) According to the Fixed Assets Register, 18 out of 19 properties had no relevant deeds or transfer orders to confirm ownership.</p> <p>Therefore, even if those properties have been acquired by other persons without permission, it is problematic to take legal action for it.</p>	<p>Out of the 18 properties indicated by the audit, the ownership of 12 properties had been confirmed and the council had the deeds or transfer orders for those 12 properties.</p>	<p>Action should be taken to obtain deeds or transfer orders.</p>
<p>(b) Since an annual asset survey had not been conducted for a long time relating to the lands owned by the Council, the audit had not been confirm the existence of these properties and the security measures taken to confirm the ownership of the Council.</p>	<p>Fixed Assets Committee has been formed to secure the property of the Urban Council and carry out the property verification activities in the near future.</p>	<p>An asset survey should be done annually.</p>
<p>(c) The public toilet system built at a cost of Rs.1,196,310 had not been documented as an asset owned by the Council and had not leased out to generate income for the Council.</p>	<p>Action will be taken to lease the toilet system in the future.</p>	<p>As a property owned by the Council Should be documented and leased to generate income.</p>
<p>(d) Although 15 buildings had been valued, they had not been valued in accordance with the Non-Financial Assets Valuation Guidelines issued by the Comptroller General's Office dated 31 December 2018.</p>	<p>Correction will be made in the final account of the year 2022.</p>	<p>Should be act in accordance with the guidelines.</p>