

Kinniya Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kinniya 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 cash flow statement for the year then ended, and notes to the financial statements, including a summary of 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 provisions of section 181 (1) of Urban Council Ordinance (Cap.255) and 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 Kinniya Urban Council as at 31 December 2021, and of its financial performance and its cash flows 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 (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.

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 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, 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) The financial statements of the Urban Council is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

The following accounting deficiencies were observed.

Audit Observation	Comment of the Council	Recommendation
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(a) Difference of Rs. 410,073 was identified between the total sum of the schedule of capital expenditure incurred in the year under review and the grant expenditure shown in the income and expenditure account.	Errors accepted.	Steps should be taken to show the correct value in the accounts.
(b) The reimbursement amount of December salary for the preceding year during the year under review was again stated as income of the year under review. Also, due to understatement of the reimbursement amount due in December of the year under review, the revenue grant of the year under review was overstated by a net value of Rs. 578,037.	Errors accepted.	It should be properly accounted for.

1.6.2 Non-submission of Documentary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation
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(a) The fixed asset register, land title deeds and detailed schedules etc. had not been properly maintained by the management in respect of non-current assets totalling Rs. 145,790,939 shown in the final	Measures have been taken to establish a data base.	Actions should be taken to maintain proper records.

accounts of the council during the year under review, Hence, the physical existence of these could not be confirmed in the audit.

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| (b) Due to non-submission of detailed schedules, records, ledgers and balance confirmations, a sum of Rs.18,403,832 related to 03 accounting items could not be satisfactorily verified in audit. | The said errors accepted. | Steps should be taken to correct the errors in the financial statements. |
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1.6.3 Un-reconciled Control account

Audit Observation -----	Comment of the Council -----	Recommendation -----
A difference of Rs. 856,188 was identified between capital income and the schedule of capital income receipts in the year under review.	Errors accepted.	Steps should be taken to show the correct value in the accounts.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc. are given below.

Reference to Non-compliance with Laws, Rules, Regulations and Management Decisions etc. -----	Non-compliance -----	Comment of the Council -----	Recommendation -----
(a) Section 16(2) of National Audit Act No. 19 of 2018	The annual performance report had not been submitted along with the financial statements.	Steps have been taken to prepare it in ensuing periods.	Annual performance report should be submitted as per the Act.
(b) Section 44 of chapter 255 of the Urban Council ordinances of 1987	The details of the roads under the purview of the Urban Council were not prepared in three languages and published in the gazette.	Actions are being taken for this at present.	Action should be taken as per the provisions of the Act.

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| (c) | Financial Regulations 1646 of the Democratic Socialist Republic of Sri Lanka | Original copies of daily running charts and monthly summaries of vehicles in use by the council had not been submitted for audit monthly before the 15th day of the following month. | It will be sent properly in the future. | Action should be taken in accordance with the Financial Regulation. |
| (d) | State Finance Circular No. 01/2014 of 17 February 2014 | The annual action plan for the year under review was not included and prepared all activities of the council according to the circular. | In the future, further steps will be taken to implement the annual action plan. | Actions should be taken to prepare the action plan as per the circular. |
| (e) | Paragraph 3.1 of Ministry of Public Administration and Management Circular No. 30/2016 of 29 December 2016 | The fuel consumption of a vehicle had not been tested in the year under review. | Actions are being taken for this at present. | Fuel consumption should be tested as per the circular. |

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs.5,021,055 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 2,146,961.

2.2 Revenue Administration

Performance in Collection of Revenue

Audit Observations	Comments of the Council	Recommendations
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(a) Rates and Taxes -----		
By the end of the year under review, the council had not taken effective steps to collect the arrears of assessment taxes amounting to Rs. 5,294,267.	There are not able to take action with regard to arrears of assessment taxes due to the current situation and the epidemic disease in the country	Actions should be taken to recover arrears of assessment taxes.

(b) Lease Revenue

Although a sum of Rs. 36,315,069 had remained as arrears in the year under review in respect of lease out of public market and meat stalls by the urban council, no steps had been taken to recover the long-term arrears that had been in existence for more than 05 years.	Legal actions are being taken to recover the rent arrears of the urban council.	Appropriate action should be taken to recover arrears of rent.
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3. Operational Review

The matters observed in respect of execution of activities that should be executed under Section 4 of the Urban Councils Ordinance such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
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In connection with the kinniya and kurinchakerni boat accidents, approval for the boat service had been given by the chairman of the council only by letter dated 28 October 2021. In this regard, decisions of the council, procurement process and records were not maintained.	As the case is pending, it is not possible to comment.	Steps should be taken to follow the proper procurement, legal provisions and safety procedures related to the services.

3.2 Procurement Management

Audit Observation	Comment of the Council	Recommendation
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In the purchase of 03 computers amounting to Rs.519,585, the contract agreements had not been entered as per guideline 8.9.1 of the procurement guidelines 2006. Also, as per guideline 3.4.2(a) of the procurement guidelines 2006, the time for completion of supplies had also not been mentioned in the purchase order.	Errors accepted.	Action should be taken as per procurement guidelines.

3.3 Deficiencies in Contract Administration

Audit Observation -----	Comment of the Council -----	Recommendation -----
Four works valued at Rs. 2.57 million had been awarded to an approved community center chaired by an officer of the council contrary to procurement guidelines.	This error will be corrected in the future.	Actions should be taken according to the provisions of the relevant acts.

3.4 Human Resources Management

Audit Observation -----	Comment of the Council -----	Recommendation -----
Security money had not been obtained from the officers who required to pay security money in terms of Financial Regulation 880 and security money ordinance (chapter 612).	Action had been taken to get the security money.	Appropriate action should be taken as per the provisions of the act and financial regulations.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
According to Provincial Treasury Circular No. PT/14/2021 of 25 November 2021, financial statements should be submitted to the auditor general on 28 February 2021, but the council had submitted the financial statements for the year under review on 31 May 2021.	In the near future, arrangements will be made to send answers in due time.	Action should be taken as per circular.

4.2 Internal Audit

Audit Observation -----	Comment of the Council -----	Recommendation -----
Although an internal auditor was appointed, he had not been submitted the internal audit plan and audit reports from the year 2019.	Once a competent officer is appointed, he is posted as internal auditor.	In the future, action should be taken to carry out internal audit in the most optimal way.

4.3 Budgetary Control

Audit Observation	Comment of the Council	Recommendation
Differences from Rs. 2,578,624 million to Rs. 25,151,529 million between budgeted recurrent expenditure and actual recurrent expenditure were observed, thus it was observed that the budget was not used as an effective control tool in management.	An optimal budgeted accounting process will be carried out in the future.	Action should be taken to prepare budget in effective manner.

4.4 Sustainable Development Goals

Audit Observation	Comment of the Council	Recommendation
According to Sustainable Development Act No. 19 of 2017, accurate assessments and indicators regarding the level of achievement of sustainable development goals to be achieved in the year 2030 had not been identified and information about the performance of the council was not maintained.	Steps will be taken to maintain a separate performance report.	Measures should be taken to effectively maintain information on indicators.