

## **Horana Urban Council - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Horana Urban Council including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in equity, 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 the Provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Horana 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**

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I express 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**

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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 for Local Authorities 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)

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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

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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 recommendations which I made on financial statements for the preceding year had been included 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

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### 1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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Non-compliance with Reference to the Relevant Standard	Comments of the Council	Recommendation
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(a) It was observed as per the following matters that the cash flow statement for the year under review had not been prepared in accordance with the method of the cash flow statements to be presented , as per Section 3.27 to Section 3.32 of the Standard.

- Although the decrease in stocks amounting to Rs.143,893 during the year should be shown as cash inflow under operating activities, it was deducted and shown as a cash outflow.
- Although the increase in other current assets was Rs.48,734,192, since it was mentioned as Rs.54,313,880 under operational activities it had been overstated by Rs.5,579,688 .

Cash flow statement will be accurately prepared in future.

Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities.

- Although the purchase of property, plant and equipment made in cash during the year was Rs. 2,851,332, since it had been stated as Rs.25,683,177 under investment activities, a sum of Rs.22,831,845 had been overstated.
- Cash flow statement will be accurately prepared in future. Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities.
- (b) Although an asset is to be depreciated on the basis of cost less accumulated depreciation and residual value in terms of Section 6.10 of the Standard, in calculating the depreciation for the year under review, the residual values of assets had not been estimated and depreciation adjustments had been made based on the cost of the assets.
- As there are a lot of assets, the depreciation adjustments had been made considering the residual value as 0 . Actions should be taken in accordance with Public Sector Accounting Standards for Local Authorities.

### 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) The capital grants received during the year under review had been overstated by Rs.5,294.</p> <p>(b) Although capital grants (amortized value) identified in surplus or deficit should be deducted from the value of capital grants received during the year under other comprehensive income in the statement of comprehensive income, the depreciated value of Rs.1,243,322 the comprehensive income of the year had been overstated by Rs.2,486,644 by adding up the value of capital grants received in the year under review.</p> <p>(c) Although the unrecognized capital grants in surplus or deficit should be Rs. 25,641,082 as at 31 December 2021, as a result of capital grants recognized amounting to Rs.1,243,322 was stated in the surplus of the year under review, the equity of the year had been understated by Rs.24,397,760 .</p>	<p>This will be corrected in the financial statements of the year 2022 .</p>	<p>It should be accurately accounted for.</p>

<p>(d) Although the accumulated fund account balance as at 31 December 2021 was Rs.153,367,835, because of the surplus of Rs. 30,700,416 for the year had been stated as accumulated fund in the statement of assets and liabilities , the equity had been understated by Rs.122,667,419.</p>		
<p>(e) By not stating the value of unrecognized capital grants, revalued reserves and donations etc. in surplus or deficit in the statement of change in equity for the year under review, the value of aggregate equity as at 31 December 2021 had not been not accurately indicated.</p>		
<p>(f) The building depreciation of Rs.7,637,500 and library depreciation of Rs.1,430,419 for the year under review, had not been accounted for.</p>	<p>This will be corrected in the financial statements of the year 2022 .</p>	<p>It should be accurately accounted for.</p>
<p>(g) The value of 06 computers and a copier received from a private institution had not been identified and accounted for during the year under review.</p>		
<p>(h) Instead of capitalizing the property, plant and equipment of Rs.66,000 received by the stores during the year under review, it had been accounted for as office supplies expenses.</p>		
<p>(i) The value of 15 lands owned by the council had not been identified and accounted for.</p>		
<p>(j) The industrial debtor balance amounting to Rs.245,381 had been overstated.</p>		
<p>(k) Industrial and external creditors of the Council had been understated by Rs.1,066,327 in the year under review.</p>		
<p>(l) Although Rs.17,915,801 should be debited to the asset account and Rs.3,629,940 to the work in progress account in the year under review, a sum of Rs.23,400,750 had been accounted for as additions to the asset account.</p>		

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| <p>(j) The distress loan balance settled by an officer to the Council amounting to Rs. 175,500 and the allowances received from the Election Commission in the year 2020 amounting to Rs. 169,094 in the year 2019 had been accounted for as other deposits without being adjusted to the due account balances.</p> | <p>This will be corrected in the financial statements of the year 2022 .</p> | <p>It should be accurately accounted for.</p> |
| <p>(k) Eleven creditor balances amounting to Rs.234,091 settled during the year under review had further been brought to accounts as creditors.</p>   |  |   |
| <p>(l) Instead of the balance payable to the Director of Pensions amounting to Rs. 30,021 at the end of the year under review, an amount of Rs.39,151 had been accounted as payable in the financial statements.</p>  |  |   |
| <p>(m) Actions had not been taken to settle the Rs. 448,636 to be paid in the years 2015 and 2016 for the projects built under the Ministry's provisions or to take it into the income of the Council.</p>  |  |   |

### 1.6.3 Unreconciled Control Accounts or Records

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#### Audit Observation

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There was a difference of Rs.3,033,957 between the value shown in the financial statements and the value shown in the corresponding reports in relation to 03 accounting items.

#### Comments of the Council

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The schedules for the year 2022 will be accurately presented.

#### Recommendation

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The balances in the financial statements should matched with the schedules.

## 2. Financial Review

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### 2.1 Financial Results

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As per the financial statements presented, the income exceeding the recurrent expenditure of the Council was Rs. 30,700,416 for the year ended 31 December 2021 and the correspondence revenue that exceeded the previous year's recurrent expenditure was Rs. 5,320,659 .

## 2.2 Performance on Revenue Collection

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<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
The stamp duty that should have been received from the Chief Secretary of the Provincial Council and other authorities for the years 2019, 2020 and 2021 was Rs. 52,728,825 and the certified stamp duty schedules for those years had not been sent to the Provincial Revenue Department as at 31 December 2021 .	That schedules are being prepared in respect of stamp duty receivable.	Actions should be taken to prepare the schedules and to recover the arrears of income promptly.

## 3. Operating Review

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The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section iv of the Urban Council Ordinance are as follows.

### 3.1 Human Resources Management

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<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Out of 44 staff health workers belonging to permanent staff, 20 workers had been assigned to other duties outside of the duties position.	They have been deployed in sanitation and cleaning activities at other places belonging to the Municipality.	It should not be assigned to other duties outside the duties of the post.