

Thalawakele-Lindula Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thalawakele-Lindula Urban Council for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account 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 Sub-section 181 (1) of Urban Council Ordinance (Cap.255) and provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Thalawakele-Lindula Urban Council as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Practices, 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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 Council
- Whether the Urban Council 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 includes specific provisions for following requirements.

- (a) The financial statements of the Urban Council are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) Except for the observation in paragraph 1.6.1 (a) of this report, the recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(D)(d)(iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) No action had been taken to rectify the accounting deficiencies amounting to Rs. 1,775,979 pointed out by my report on the financial statements for the preceding year.	It has been informed that adjustments will be made in the accounts of the year 2022.	Necessary adjustments should be made to the accounts.
(b) Loan installments amounting to Rs. 1,001,389 payable to the Local Loans and Development Fund for the ensuing year had been shown under long-term liabilities instead of accounting as current liabilities.	It has been informed that the value of loan instalments will be identified and brought to accounts as short-term liabilities as pointed out by audit.	Loan capital should be separately identified as long term and short term.
(c) The value of 10 items of brass and silver equipment for party and events mentioned in the Inventory had not been assessed and shown in the financial statements.	It has been informed that it will be assessed and brought to accounts in the year 2022.	Assets should be assessed and brought to accounts.
(d) In the financial statement, there were overstatements of assets by Rs. 98,700 in one instance and understatements of assets by Rs. 240,700 in one instance.	It has been informed that rectifications will be made in the future financial statements.	Financial statements should be prepared accurately.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Council	Recommendation
Differences totalling Rs. 4,348,328 were revealed in comparing the value of 11 items relating to 08 account balances shown in the financial statements as at the end of the year under review, with the relevant supporting documents.	It has been informed that action will be taken to settle it in the year 2022.	The differences in account balances should be looked into and rectify the relevant schedules or financial statements.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation --
Information required by audit pertaining to 11 items of accounts totalling Rs. 2,868,241 had not been made available.	It has been informed that the matters pointed out by audit are accepted and the relevant rectifications will be made.	Evidence required for audit should be made available.

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 2021 amounted to Rs. 5,578,700 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs. 1,982,550 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Taxes		
Rates in arrears totalling Rs. 1,171,510 that remained recoverable for a period ranging from 01 to 10 years from 01	It has been informed that documents are being prepared to seek the approval of the Hon. Governor to write off the rates totalling Rs. 818,	The revenue in arrears should be recovered.

Government institution, 01 private institution and from domestic units, had not been recovered.

362 recoverable from the properties lost in the construction of Upper Kothmale Reservoir and due to delimitation.

(b) Other Revenue

i. Shop rent totalling Rs. 100,396 recoverable since prior to the year 2017, land rent of Rs. 95,804 recoverable from a period of 05 years and house rent amounting to Rs. 203,492 recoverable from a period of 08 years, had not been recovered.

It has been informed that the taking over of shops defaulting payments to the Urban Council has been approved on 24 July 2022, the institution where the officer from whom the house rent was recoverable, has been informed to recover from salary and send it and the persons involved in the land tax have not been identified yet.

The revenue in arrears should be recovered.

ii. Charges of Rs.485,650 recoverable in respect of bill boards had not been recovered as per the Gazette Notification published by the Council for the year under review.

It has been informed that the shop owners have been informed of the recovery of charges for bill boards.

The revenue in arrears should be recovered.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

	Audit Observation -----	Comment of the Council -----	Recommendation -----
(a)	Action in terms of Financial Regulations 189 and 486 had not been taken to recover the value of Rs. 607,345 relating to 08 dishonoured cheques received to the Council during the period from 2002 to May 2021.	A case has been filed regarding 04 cheques valued at 349,794 and a sum of Rs. 11,700 was recovered and further it has been informed that 03 police complaints have been lodged to recover the value of 03 cheques totalling Rs. 157,551 while a case is being filed for the recovery of a sum of Rs. 100,000.	Action should be taken in terms of Financial Regulations.

- (b) The balance of Rs.6,908,217 was receivable from various ministries and departments in relation to 11 industries from 01 year to 18 years during the period from the year 2003 to 2019 while no action had been taken during the year under review to settle the balance of Rs.5,324,174 payable for 13 industries.
- It has been informed that action will be taken to settle it in future.
- Action should be taken to settle the debtor and creditor balances.

3.2 Transactions of Contentious Nature

Audit Observation	Comment of the Council	Recommendation
-----	-----	-----
<p>(a) The “<i>Sampath Piyasa</i>” that constructed near the Dharmalingum Hall at Thalawakele for solid waste management had been leased out to an external party to maintain as a Canteen for a period of 03 years from 01 August 2019. The lessee had not paid electricity charges of Rs. 79,940 and water charges of Rs. 137,831 for water and electricity supplies obtained irregularly and had also used the institution as a residential place.</p>	<p>It has been informed in writing to hand over the relevant building to the Urban Council in terms of lease agreement and in case of the failure to do so, it was further informed that the building will be vested in the Council.</p>	<p>Assets of the Council should be managed properly.</p>
<p>(b) A 10-year lease agreement had been entered into at the personal discretion of the Chairman without the council's approval by calling for procurement to lease the inn for the year 2021. After being leased to a private party at an annual rent of Rs.2,016,000, repairs had been carried out spending a sum of Rs.1,499,212 from the council fund. Also, while the Talawakele Inn was leased for one year, the lessee had constructed a permanent building of 3000 square feet in the premises of Inn without the approval of Council.</p>	<p>It has been informed that the inn was leased out for 10 years as per the request of the tenderer and the former Hon. Chairman has given his personal approval for the temporary construction in a manner that the building of inn will not be damaged.</p>	<p>Action should be taken in a manner that is beneficial to the Council.</p>

3.3 Assets Management

	Audit Observation	Comment of the Council	Recommendation
(a)	According to Paragraph 1.1 of the Finance Commission Circular No. 2016/01 dated 30 December 2015, buildings should be constructed only on the lands of which the ownership vested in the relevant institution. Nevertheless, the Council did not have legal ownership of the lands where the Middleton Tourist Resort and Middleton Food Centre were built at a cost of Rs.3,921,727.	It has been informed that this construction has been done according to the decisions taken at the General Meeting held on 14 October 2013, and that a written enquiry on vesting the land has been made from Talawakele Estate being the current owner of the land.	Arrangements should be made to vest the ownership of lands.
(b)	In the Lindula shopping complex, the shops which were built as single storey shops and given by the council as per the agreement were built as two storey, three storey and four storey without the permission of the council. However, the Council had not taken legal action in that regard.	It has been informed that even though the shops have been constructed as storeys between 2002 and 2005, the shop owners have entered into agreements with the Council only in the year 2015.	Action should be taken to assess without delay.