

Nawalapitiya Urban Council – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nawalapitiya Urban Council including the financial statements for the year ended 31 December 2021 comprising the Statement of Balance sheet as at 31 December 2021, Statement of Financial Operations 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 matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Nawalapitiya 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

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 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 Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council's 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 includes 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 **Audit Observations on the preparation of Financial Statements**

1.6.1 **Accounting Deficiencies**

Audit Observation	Comments of the Council	Recommendation
(a) The total value of 16 various creditor balances of Rs.620,220 was not disclosed in the financial statements.	It has been informed that the creditor balance of Rs. 71,227 has been accounted for and the remaining creditor balances are being rectified.	Creditor balances should be accurately identified and accounted for.
(b) The value of 02 Project creditor balances amounting to Rs.769,304 was not stated in the financial statements.	No comments.	Project creditor balances should be accurately identified and accounted for.
(c) In the year under review, the values of 04 Projects which had been completed at a cost of Rs.4,937,837 had not been capitalized.	It has been informed that the relevant values will be capitalized.	Expenditure incurred under capital expenditure should be capitalized.

1.6.2 **Unreconciled Control Accounts or Records**

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.491,283 since the balance as per the financial statements related to two asset subjects was Rs.31,010,837 but according to the schedules presented with it, the balance was Rs.30,519,554.	It has been informed that the documents have been checked and corrected.	Differences should be identified and necessary adjustments should be made to the financial statements.

1.7 Non- Compliances

Non-compliance with Laws, Rules and Regulations

Following are the instances of non-compliance with laws, rules and regulations observed during sample audits

Reference to Laws, Rules Regulations etc.	Non- Compliances	Comments of the Council	Recommendation
(a) Section 157 (6) (g) of the Urban Council Ordinance	Charges of Rs. 991,063 to be charged for the Advertising boards that were displayed in the council area had not been collected.	It had been informed that letters have been sent to recover the Advertising board charges.	Arrears should be recovered and Advertising boards should be surveyed and charged.
(b) 371(2) (b) of the Financial Regulations as amended by Public Finance Circular No. 01/2020 dated 28 August 2020	Although the Ad hoc sub Imprest should be settled as soon as the related work is completed, there was a delay between 03 days and 138 days in the settlement of the Ad hoc sub Imprest of Rs.383, 157 given in 17 cases.	It has been informed that arrangements have been made to settle the Imprest without any delay.	Financial regulations should be complied with.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 35,422,917 as compared with the excess of revenue over recurrent amounted to Rs. 39,314,465 in the preceding year.

2.2 Financial control

Audit Observation

According to the bank reconciliation statement prepared on December 31 of the year under review in relation to the general account of the council, the amount of Rs.736,000 deposited on

Comments of the Council

That it is an amount deposited directly into the Urban council account by the businessmen related to the council's super mall and It has been informed

Recommendation

It should be found out about Deposits and corrected.

January 10, 2019 had not been identified and settled as the difference between the bank and cash book

that since the said details have not been provided to the council so far, they have been shown separately in the bank reconciliation statement.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) As on December 31 of the year under review, the arrears to be received in relation to land lease was Rs. 779,002, and thereof the balance that exceeded 05 years was Rs. 538,522.	It has been informed that the relevant arrears are being recovered and legal action has been taken against those who do not pay.	Arrears should be recovered.
(b) Due to non-payment of rent as per the assessment made on 08 January 2018 for 176 shops in Nawalapitiya Super Mall ; as on December 31 of the year under review, the council had lost a rental income of Rs.73,193,570.	It has been informed that a case has been filed on non-agreement to pay the new shop rent assessment amount and due to non-payment of shop rent since the year 2018, this amount is in arrears and payments will be made in instalments.	Shops should be assessed at least once in 05 years and the prescribed rent should be charged.
(c) As on December 31 of the year under review, the outstanding balance of water charges was Rs.896,074, in which Rs.68,100 was outstanding for a period of 1 to 3 years and Rs.765,174 was outstanding for more than 03 years.	It has been informed that action will be taken to write off the arrears in the water scheme assigned to the Board of Water Supply, and to recover the arrears related the remaining water scheme.	The income in arrears should be recovered.
(d) At the end of the year under review, the arrears of Motor vehicle parking fees was Rs.5,251,532, in which the arrears related to the period between 01 to 05 year, was Rs.3,515,457 and the arrears for more than 05 years was Rs.902,944.	Part of this amount has been paid on July 27, 2020 and a final notification has been issued for vehicle owners to recover the remaining amount.	The income in arrears should be recovered.

- (e) As on January 01 of the year under review, the arrears of toilet fee was Rs.1,269,174 and out of the arrears the collection during the year was Rs.49,010 hence the balance due on December 31 of the year under review was Rs.1,225,164.
- It has been informed that a part has been settled by June 30, 2022 and that the rest of the arrears will be recovered.
- The income in arrears should be recovered.

3. **Operational Review**

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

3.1 **Identified losses**

Audit Observation	Comments of the Council	Recommendation
<p>During the period from September 2020 to November 2021, the assessment revenue collection officer issued assessment bills in a folder other than the correct assessment issue folder and had falsely obtained Rs. 1,527,688 by the officer in charge of assessment revenue subject without paying the said revenue to the council.</p>	<p>It has been informed that a preliminary investigation has been conducted and further action will be taken accordingly.</p>	<p>Existing internal controls over revenue collection should be strengthened. Disciplinary action should be taken against the responsible officers as per the Establishment Code.</p>

3.2 **Operational Inefficiencies**

Audit Observation	Comments of the Council	Recommendation
<p>Revenue of Rs.1,695,180 which was supposed to be collected by providing the council stadium for sports activities had not been collected and in that there was a balance of Rs.1,429,080 which was outstanding for more than 02 years.</p>	<p>It has been informed that due to the negligence of the subject officers, they have not been shown as debtors and that they will look into the matter and adjust it with the accumulated.</p>	<p>Annual income and outstanding balances should be recovered.</p>

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
----- Two motor vehicle worth of Rs.1,665,000 belonging in to council had remain idle for more than four year.	----- 02 vehicles have been inactive. Suspended for repairs.	----- It should be repaired and put to use.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
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(a) Although the council had spent Rs.252,191,942 from the year 2008 to 2021 for the construction of Nawalapitiya Super Mall, the land on which the super mall was built had not been handed over to the Urban Council by the audit date of December 15, 2021.	It has been informed that requests have been made to hand over to the Urban Council, according to the decisions of the Cabinet, but the handover has not been done so far.	Before construction, the ownership of the land should be acquired and arrangements should be made to acquire this land.
(b) Since the year 2016, Rs.21,950,873 had been spent in 10 occasions and the development work of the Imbulpitiya Environmental Conservation Centre had been carried out, but the land belonging to the said building had not been formally taken over.	No answer.	The relevant land should be acquired before deploying funds for development projects or construction projects.

3.5 **Human Resources Management**

Audit Observation

Comments of the
Council

Recommendation

There was an employee loan balance of Rs.1,488,572 due on December 31 of the year under review and in that balance, the loan balance of Rs.427,725 due from 17 officers who had left the service for a period of 04 to 28 years, and also 14 loan balances of Rs. 339,696 that had elapsed the period between 10 months to 33 years after retirement.

It has been informed that this will be looked for and recovered.

Loan balances should be recovered.