

Watthegama Urban Council – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Watthegama 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 Watthegama 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
Although the purchase price of a water meter was Rs.3,850, due to the unit price was entered as Rs.4,260 in the financial statements, the stock related to 59 water meters were over stated by Rs.24,190 and the stock value of 05 units of water equipment by Rs.197,178.	It has been informed that corrections will be made through the 2022 financial statement.	Financial statements should be prepared accurately.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of relevant Source documents and schedules, in respect of 04 asset subjects at a total of Rs.12,448,846 and 08 liability subjects total of Rs.6,414,152 they could not be verified satisfactorily during the audit.	It has been informed that all schedules will be submitted during the submission of the 2022 financial statements.	All information required for the audit should be submitted.

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. 8,146,981 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 14,055,072 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rs.5,639,587 out of the outstanding balance of Rs.9,458,138 at the beginning of the year under review, and Rs.6,160,428 out of the billings of Rs.18,851,056 of the year had not been collected during the year and the outstanding balance as of December 31 of the year under review was Rs.11,800,015.	It has been informed that, from the beginning of the year 2022, the public has been informed from time to time through loudspeakers and mobile services have been conducted to collect arrears income.	The arrears should be recovered as per the provisions of the Act.
(b) As on December 31 of the year under review, there was an arrears of Rs. 7,398,957 in water charges, in which the balance that exceeded 03 years was Rs. 779,207.	The works related to charging are being carried out from 04.07.2022 by disconnecting the water supply with arrears of water charges.	Arrears of water charges should be recovered.
(c) Although assessment properties in the council area of Authority are to be assessed in every 5 years, as on 31st December of the year under review the assessment tax was still being levied based on the assessment of the year 2013.	On 27.04.2022, a request has been made from the provincial assessor to inform the date for conducting a new assessment revision.	The assessment tax should be assessed once in 05 years.
(d) The rent of Rs.348,503 due to the council was not collected from 10 houses built on a land of 8 1/2 acres belonging to the council.	The rent has been assessed in the year 2019 and it has been informed that the approval of the Honourable General Assembly has been given for the implementation of the said rent from 01.01.2020.	Rents due should be collected.

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 **Idle or underutilized Property, Plant and Equipment**

Audit Observation	Comments of the Council	Recommendation
(a) The Urban council's old library building, which was renovated at a cost of Rs.2,428,633, was handed over to the council on July 15, 2020, but was closed without being used for any purpose.	It has been informed that since the library service board has made arrangements to purchase the necessary equipment, the children's library will be opened as soon as the items are received.	The renovated old library should be used for providing public services.
(b) The building used to carry on the old council office where a vocational training centre was operated, was returned to the Urban council on December 28, 2017, but the building had not been used for effective work until the audit date of May 19, 2022.	On 2021.04.29, Although the Honourable General Assembly approved to tender at regional level for 06 by 6 months, The building was tendered several times but no tenderer came forward.	The old council office building should be used for productive work.