

Thalawakele-Lindula Urban Council - 2020

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 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 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 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 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 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.

- The financial statements of the Municipal Council are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- 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 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	Comment of the Council	Recommendation
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No action had been taken to rectify accounting deficiencies in Paragraph 1.2.1 (b), (c), (d), (e) pointed out by my report on the financial statements for the preceding year.	I will ensure not to occur such errors in the preparation of future financial statements.	In the preparation of financial statements, errors should be identified and corrected.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Council	Recommendation
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There was a difference of Rs.19,474,675 between the balance as per the financial statements and the balance as per the schedules in relation to 13 items of accounts.	Details will be correctly obtained from the relevant divisions and it will be rectified and submitted in the preparation of future accounts.	Financial statements should be prepared including accurate figures.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation
Due to lack of age analysis, revenue schedules, ledger accounts and journal entries, account balances totalling Rs.3,364,914 relating to 05 items of accounts could not be satisfactorily verified/vouch in audit.	Information will be obtained correctly from the relevant divisions and it will be correctly submitted in the preparation of accounts.	Schedules should be properly maintained and sufficient evidence should be furnished to audit.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs. 1,982,550 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 3,547,426.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
Rates and Taxes Rates in arrears totalling Rs.1,237,549 that remained recoverable for a period from 03 to 10 years from 01 Government institution, 01 private institutions, and relating to the previous years from those who lost the properties in the construction of Upper Kothmale Reservoir had not been recovered in terms of Section 170 (1) of the Urban Council Ordinance. Accordingly, the performance of the collection of revenue was insufficient.	Arrangements are being made to recover the arrears.	Action should be taken to recover the revenue in arrears as per the Urban Council rules.
Court fines and Stamp Duty No action had been taken to recover the court fines of Rs.5,350,326 and stamp duty of Rs.1,326,000 due from the Chief Secretary of the Provincial Council and other officers as at 31 December of the year under review.	Revenue Inspector of the Council has been instructed in this regard.	Action should be taken to recover the court fines and stamp duties.

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)	Although a sum of Rs. 1,739,497 due from industrial debtors as boat income, entertainment tax and pension advances under 04 items of accounts had elapsed for a period from 02 to 16 years as at 31 December of the preceding year, it had not been recovered even in the year under review.	According to the Council decision, this will be corrected and presented in the preparation of future accounts.	Receivable balances should be recovered.
(b)	Out of the 17 building applications received during the year under review, only 05 applications were approved for construction due to delays in granting approval of the building research institute, lack document in support of the ownership and shortcomings in the building plan. The recommendation of the Public Health Inspector had not been obtained in approving the building applications.	This has been referred to the Public Health Inspector for further action.	Activities should be carried out efficiently.
(c)	Action had not been taken against 23 unauthorized stalls (01 Lottery outlet, 14 stalls of the Council, 08 Samurdhi Shops) constructed along the main road near the Upper Kotmale Reservoir in front of the Office of the Council.	The Council had informed the shop owners from time to time on the unauthorized constructions.	Action should be taken according to the Act in respect of the unauthorized constructions.
(d)	Due to failure to hand over the unused upstairs and Middleton Food Sales Center at the bus stand to a suitable party in accordance with paragraph 1.1.6 of the Finance Commission Circular No. 2016/01 dated 30 December 2015, it had become a place used for anti-social activities even by 12 February 2021.	Although tenders were called for this year to lease out the canteen on the upper floor of the bus stand, no businessman came forward and the upper floor is being cleaned and it will be made inaccessible to outsiders.	Action should be taken in accordance with circulars and safety of the assets should be ensured.

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| (e) | According to the Technical Officer's report, there were 96 unauthorized constructions, including 40 permanent buildings and 56 temporarily stalls in the Urban Council area. As the Council had not taken the necessary steps to remove or legalize unauthorized construction, it had lost a large amount of revenue. | The Management Services Officer in charge of the subject has been informed in this regard and legal action is being taken regarding the unauthorized constructions and temporary constructions. | Action should be taken to the remove or legalize the unauthorized constructions by paying special attention in this regard. |
| (f) | The official quarters used by a Management Service Officer who had been transferred to the Nuwara Eliya Zonal Education Office on 30 December 2019 from the service of the Municipal Council had not been returned even though it had been about a year and 02 months since his transfer. No action had been taken in accordance with the provisions of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and the agreement signed on 01 April 2013 in this connection. | It is informed that legal action will be taken against the officer in the future. | Action should be taken according to the law in respect of the government quarts, |

3.2 Operating Review

Audit Observation

All 17 shops in the Wanigasekara shopping complex had been leased out by 12 February 2021 and the businessmen of 08 out of the 9 shops that had been opened had not entered into agreements with the Council. No action had been taken to evict these persons or to take other steps up to 31 October 2021.

Comment of the Council

The shop owners who have entered into agreements for the relevant shops maintain the business by employing other people.

Recommendation

Arrears of revenue should be recovered and action should be taken to prevent subleasing.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation

- (a) It was observed at the physical inspection conducted on 09 February 2021 that the stalls numbered 04 and 05 which were given for the sale of chicken had been turned into slaughterhouses and the refuse, including the intestines of slaughtered animals had been dumped, thus stinking the surrounding area.

Comment of the Council

It has been decided at the Health Committee to take legal action under the Nuisance Ordinance and cleaning of the relevant location has been done.

Recommendation

Slaughtering of animals should be removed from this place

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| (b) | Ten (10) businesses that should have obtained protection licences in accordance with the National Environmental Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and No. 53 of 2000, and the regulations applicable thereunder, had not obtained licenses even as at 11 February 2021. | Action will be taken to issue protection licences for businesses expeditiously. | Action should be taken in accordance with the National Environmental Act |
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