

## **Ja - Ela Urban Council - 2020**

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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 Ja - Ela Urban Council including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement , statement of changes in net assets/ 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 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 Ja – Ela Urban Council as at 31 December 2020 , 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, 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 following recommendations which I made on financial statements for the preceding year had not been implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.2.1 (c), 1.2.2 , 1.2.3, 1.2.4, 1.2.5 (a), 1.2.6, 2.2.2, 3.2 (b) and 3.4 (b)

## 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
<p>(a) The assets had not been revalued in terms of the letter of the Assistant Commissioner of Local Government No. 18.7 and No. LGD /10A /4 / NG / 2019 dated 01st February 2021.</p> <p>(b) Although lands and buildings should be accounted for separately as fixed assets in terms of No.6.3 the value of the lands and buildings owned by the Council had not been brought to accounts.</p> <p>(c) The Council had not prepared a statement of fixed assets and liabilities as at 01 January 2020, the commencement of the reporting period in accordance with No. 18.4 .</p>	<p>It is informed that it will be submitted in the year 2021 .</p>	<p>Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.</p>

(d) The payments made during the year from the capital expenditure grant receipts under Note 10 in the financial statements should be deducted as recognized grants in surplus and the balance should be recorded under unrecognized grants in surplus under net assets / equity in terms of No. 9.9 and although it should be indicated as income under Note No. 05 by a journal entry to the comprehensive revenue statement based on the calculation of depreciation without being so accounted for the capital grants received and receivable during the year under review amounting to Rs. 16,438,272, receipts and payments had been accounted for through the general deposit account.

(e) Although the roads and culverts and other infrastructure items are needed to be accounted for under different accounting codes under property plant and equipment in accordance with EG 3.2, included detailed explanations for the Standards, roads, culverts and drains developed at a cost of Rs. 29,567,827 during the year under review had not been brought to accounts.

(f) Although if there are any capital work-in-progress, those should be shown as a separate variant in the property, plant and equipment schedule in accordance with EG 3.2 which includes in detailed explanations for the Standards, the value of 13 industries amounting to Rs. 9,303,837 at the end of the year under review had not been indicated in the accounts.

(g) Although the income from the transactional business and the income from the non-transactional business should be identified and accounted for separately in terms of No. 9 and 10, all the income of the Council amounting to Rs. 154,960,889 had been accounted for as revenue from transactional business.

It is informed that since the industry items has been billed to the general deposit account this error has occurred.

It is informed that the steps will be taken to include from the year 2021.

It is informed that the steps will be taken to include from the year 2021.

\*Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

### 1.6.2 Accounting Policies

Audit Observation	Comments of the Council	Recommendation
<p>(a) Although it had stated in the financial statements that the computer software was recognized as an asset under policy No. 3.2 submitted, the computer software for human resources purchased during the year under review valued at Rs. 1,497,500 had not been accounted for as an asset.</p> <p>(b) Fixed assets had not been grouped and depreciated as stated in Policy No. 3.5.</p>	<p>It is informed that the actions will be taken to correct.</p> <p>Because of the assets have not been revalued it is informed that the values have not been calculated and taken into books in the current year.</p>	<p>Accounting policies for depreciations should be made under accurate depreciation ratio .</p>

### 1.6.3 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) By not debiting the relevant loan account, for the deduction of stamp duty income by the Department of Local Government during the year under review amounting to Rs. 1,810,000 for the compactor issued on a loan basis in 2019 valued at 12,998,400, the loan account had been overstated by that amount.</p> <p>(b) The creditors balance had been overstated by Rs. 2,000,000 as a result of failure to debit of the creditors' account when purchasing 02 three wheelers incurring Rs. 1,499,900 in the year 2018 by making provision of Rs. 2,000,000 for the year 2017 for the purchase of them.</p>	<p>It is informed that It should be properly the notes have been accounted for. made for correction in the year 2021.</p>	<p>It should be properly accounted for.</p>

(c) As a result of 4 industry credit balances settled amounting to Rs. 414,515, a credit balance of Rs. 500,000 pertaining to a cancelled project and 13 credit balances indicated more than the amount to be paid amounting to Rs. 6,426,450 had been indicated in the industrial credit balance, creditors as at the end of the year under review had been overstated by Rs. 7,340,965 .

(d) As a result of accounting for the net amount to the income after deducting the loan instalment amounting to Rs. 2,896,000 which was deducted by the Department of Local Government for the vehicle loan from the total stamp duty value, other income and the creditors had been understated and overstated respectively by the same amount .

(e) Transferring a sum of Rs. 15,823,669 from the fixed deposits of the Council to the current account and out of that, an amount of Rs. 823,669 reinvested in the current account had not been indicated in the cash flow statement as cash generated from investment activities and the amount reinvested had also not been accounted for as non-current investments.

It is informed that the notes have been made for correction in the year 2021.

It is informed that actions will be taken to correct

It should be properly accounted for.

## 2. Financial Review

### 2.1 Financial Results

The surplus of the Council for the year ended 31 December 2020 in the Financial Statements submitted was Rs. 1,949,338 as per the Sri Lanka Public Sector Accounting Standards for Local Government Institutions, the revenue higher than recurrent expenditure for the preceding year was Rs. 41,081,341 .

## 2.2 Revenue Administration

### Performance of Revenue Collection

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<p>(a) Actions had been taken to write off 101 units of rates amounting Rs. 1,177,685 during the year under review without a written request and 94 businesses, out of 192 commercial units of rates belonging to Divisions Nos. 01 and 09 of the Rates List business or license fees had not been charged. A less amount of Rs. 30 had been charged as rate charges up to 774 bare land units only in the vicinity of these divisions which were a densely populated area.</p>	<p>It is informed that the amount of fees charged has been reduced.</p>	<p>The accurate fee should be charged.</p>
<p>(b) <b>Rent</b></p>		
<p>Although a value not less than 60 times of the monthly rent should be charged when assets are subject to interim lease as per the Circular No. LGD/13/2016 which was not dated in 2016 of the Commissioner of Local Government, Western Province, despite 35 shops belonging to the Council had expressed their willingness to lease out, and although the approval of the Chief Minister required for that had been received, the interim lease system had not yet been implemented even by 22 September 2020. The revenue lost to the Council as a result,</p>	<p>Although the letters have been sent by interim lessees requesting to take actions to take over the stalls on interim lease, they did not appear and it is informed that the interim lease has been transferred to only two persons who have applied for it and the agreement has been entered into by now.</p>	<p>Transfers should be done in accordance with the new assessment.</p>

was Rs. 1,470,576 . This loss of revenue was calculated on the old shop rent and although the new assessment was received on 25 May 2018 , it had not yet been activated even as at 22 September 2020 .

### 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 04 of the Urban Council Ordinance are as follows.

#### 3.1 Identified Losses

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##### Audit Observation

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Even though an agreement had been entered into with the contractors at a cost of Rs. 15,079,593 on 08 June 2011 for the construction of a maternity clinic building and had commenced works on 16 August 2011 , only the foundation was laid and the rest of the work had been halted due to the crisis situation in the Council . Although a sum of Rs. 3,015,919 had been paid as a 20 per cent mobilization advance to commence the project , an acceptable security which should be obtained when paying any advance for work had not been obtained in accordance with Procurement Guidelines 5.4.4 . Accordingly, despite the works had been suspended when carrying out , as the value of the work -in-progress on the contract had increased by Rs. 724,389 more than the advance paid amounting to Rs.2,291,530, arrangements had not been made to recover that amount from the officers who did not take actions to obtain a guarantee for the advance.

##### Comments of the Council

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It is informed that the steps will be taken in this regard in future.

##### Recommendation

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Actions should be taken to recover from the responsible parties.

### 3.2 Unauthorized Constructions

#### Audit Observation

The three storied building being constructed at 124 Main Street was located in between two roads belonging to the Road Development Authority and had located 45 feet from the centre of Colombo Road and 19 feet 6 inches from the centre of New Colombo Road. Accordingly, it was revealed that the building was constructed in violation of the relevant restrictions and it was also revealed that 7 shops in the ground floor building which are more than 20 years old had been registered for rates. Although it had been indicated that there were shortcomings in the building applications submitted after applying of pillars and slabs for the 2nd floor, since those were not corrected yet the Council had defaulted to take actions in accordance with the provisions of the Municipal Council Ordinance regarding this unauthorized construction.

#### Comments of the Council

It has been informed that, this is being examined.

#### Recommendation

Legal actions should be taken.

### 3.3 Management Inefficiencies

#### Audit Observation

An officer who was serving in the Council has been transferred to the Ja-Ela Pradeshiya Sabha with effect from 01 January 2020 and actions had not been taken to recover the ad hoc sub- imprests amounting to Rs. 205,000 which he had obtained on 09 occasions before release from the service and necessary actions had not been taken to recover the relevant sub- imprests even by 31 December 2020 . The relevant officer had been released without

#### Comments of the Council

It is informed that letters have been sent to the Assistant Commissioner of Local Government seeking instructions to settle the unsettled advances received by this officer.

#### Recommendation

Actions should be taken to recover and to be settled.

undertaking the details of the arrears of duties remained with him and the relevant documents in the possession of the officer properly as per the letter of the Secretary dated 31 December 2019. Further, problems had arisen with regard to unpaid bills for 27 items identified under the object of supply of goods, which were handled by that officer and as a result, they could not be recovered even by 31 March 2021.

### 3.4 Operational Inefficiencies

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#### Audit Observation

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A computer software had been purchased on 17 September 2019 at a cost of Rs. 4,575,000 for the payments of rates and revenue management and even though a sum of Rs. 650,000 had been paid for the rates payment system facility through an online website, there was no progress even by 30 September 2020. Steps have not been taken to create mobile phone application, make pre-requisites for SMS activation and identifying required deficiencies and make corrections in terms of the agreement and an agreement had not been entered into on providing after-sales service regarding the software system for the next 05 years. Despite this software system was not make into a fully functional level, an agreement had been entered into, to the purchase a software system for payroll and human resource management and a sum of Rs. 1,497.47 that is 50 per cent of the contracted value had been paid on 29 June 2020. Entering into an agreement for a new software management system without fixing the shortcomings in the previously purchased software system was questionable.

#### Comments of the Council

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It is informed that steps have been taken to expedite the establishment and implementation of the Human Resource Management Package with a view to enhancing the efficiency of the institution.

#### Recommendation

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Actions should be taken to identify the deficiencies and to be activated accurately.

### 3.5 Deficiencies in Contract Administration

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#### Audit Observation

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The contract for the construction of the side wall of the Podi Ela had been awarded to two societies in 06 phases and a sum of Rs. 14,156,879 had been paid carrying out constructions in concrete with this side wall 853 feet in length and 2 feet above from the ground level and 7 feet 6 inches below ground level. Excavations were physically carried out on 19 January 2021 in 3 steps out of 4 steps in underground and thus the difference in the amount of concrete used between the final payment reports and the quantities revealed during the physical inspection was 95.18 cubes, the amount overpaid for the concrete works was Rs. 4,102,304 . Here, for stages IV and V the same amount had been paid to two societies without taking any measurement and contracts had been awarded to 02 societies exceeding of Rs. 2 Million .

#### Comments of the Council

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Payment has been made as concrete only for the granite wall at the end of the side wall and it is informed that as a result of failure to prepare the accurate measurement reports, overpayment has been made for an extent of 3'7 " length.

#### Recommendation

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Payments should be made obtaining accurate measurements and actions should be taken in terms of the Government Procurement Guideline.