

Katunayake Seeduwa Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katunayake Seeduwa 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 reported 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 Katunayake Seeduwa 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

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

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)

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 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, 1.2.2.(a)(b), 1.2.3, 1.2.4(a)(b), 1.2.5(a)(b), 2.2.2, 2.2.3(a)(b) and 3.4.1

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non -compliance with Relevant Standard	Reference to the Council	Comments of the Council	Recommendation
<p>(a) 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 net assets / equity, under unrecognized grants in surplus in terms of No. 9.9 . Even though a sum of Rs. 3,699,215 had been paid out of the provisions received during the year under review, the total amount of Rs.23,366,897 which was indicated as receivable has been accounted for as revenue under Note No. 05 and any money had not been mentioned as a balance under unrecognized grants in surplus under Note No.10.</p>		<p>It is informed that the actions will be taken to correct through the financial statement of the next year.</p>	<p>Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Government Institutions.</p>

- (b) A clear and unlimited statement had not been made as the firstly prepared financial statements as the provision No. 18.3 Sri Lanka Financial Reporting Standards (SLFRS) for Local Government Institutions in the financial statements submitted as at 31 December 2020 .
- (c) Although the value of all fixed assets belonging to the Council should be taken into account as per No. 18.7 and the letter No. LGD /10A /4 /NG / 2019 dated 01 February 2021 of the Assistant Commissioner of Local Government , only the value of the lands with plans and motor vehicles had been temporarily assessed and accounted for. The other fixed assets owned by the Council had been accounted for based on the values prior to apply the Accounting Standards for Local Authorities without revaluation.

It is informed that it will be presented correctly in next years.

It is informed that all the assets will be revalued and accounted for in the financial statements for the year 2021.

Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

1.6.2 Accounting Policies

Audit Observation

Although 15 per cent of computers, 12.5 per cent of computer accessories, 5 per cent of machines and 5 per cent of furniture fittings had been stated to be depreciated under Accounting Policy No. 3.2 of the financial statements submitted, classifying the total value of computers purchased in the year 2020 amounting to Rs. 3,653,277 under the machinery of the fixed assets schedule and also the networking system valued at Rs. 351,724 under furniture fittings had been depreciated at a relevant depreciation rate for those assets .

Comments of the Council

It is stipulated to revalue and account for the all remaining fixed assets for the year 2021 and it is informed that we will take actions to correct all the classification errors therein.

Recommendation

Depreciations should be made at the accurate depreciation rate as per accounting policies .

1.6.3 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The arrears of electricity bill pertaining to the year 2015 paid to the Council by the lessee of the daily fair in Avariwatta amounting to Rs. 183,344 had been brought to accounts as an income relating to the year under review without credit to the accumulated fund.	It is informed that the actions will be taken in the manner of credit to the accumulated Fund when such income is received in future.	It should be accurately accounted for.
(b) A key money of Rs. 1,217,857 outstanding furthermore for 04 stalls of the Seeduwa Market Complex had not been accounted for as a balance receivable.	It is informed that the actions will be taken to account for this balance.	All arrears should be accounted for.
(c) Although the total value of grants from the government for the year under review was Rs. 29,648,006 , thus the total value of grants stated to Note No. 10 in the comprehensive income statement by the Council, a sum of Rs.23,366,897 for 08 projects had been understated by Rs. 6,301,109 .	It is informed that it will be accurately formulated the total value of grants from the Government in the next year.	The value of total donations should be accounted for.
(d) The total value of 05 projects which were accounted for as creditors and receivables during the year under review but were not completed by the end of the year under review amounting to Rs. 24,884,956 and the value of 07 unfinished industries mentioned under capital expenditure of the previous year amounting to Rs.5,140,190 had not been brought to accounts as work- in- progress in terms of EG 3.1 of Explanation and Guidance of Sri Lanka Public Sector Accounting Standards for Local Government Institutions .	It is informed that the actions will be taken correct by the financial statements of the next year.	It should be accounted for in accordance with the explanations and guidance of Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

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| <p>(e) The value of 31 trailers and the value of a tractor had not been brought to accounts as per the Board of Survey Report of the year under review.</p> | <p>It is informed that it will be brought to accounts by assessing at the revaluation procedure for machineries in the year 2021 .</p> | <p>All the assets belonging to the Council should be accounted for.</p> |
| <p>(f) Although an amount on the basis of which the depreciation was calculated should be indicated as an income under Note No. 05 by a journal entry into the Comprehensive Income Statement in terms of Sri Lanka Public Sector Accounting Standards for Local Government Institutions No.9.9, without doing so, because of the provision itself mentioned as receivable amounting to Rs. 23,366,897 was brought to accounts as income under Note No. 05, the revenue of the year had been overstated by the same account.</p> | <p>It is informed that the actions will be taken correct by the financial statements of the next year.</p> | <p>It should be accounted for in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.</p> |

1.6.4 Unreconciled Control Accounts or Records

Audit Observation

A difference of Rs. 1,000,869 was observed in between the balance pertaining to an account item amounting to Rs.16,198,241 as shown in the financial statements and the balance shown in the schedule .

Comments of the Council

It is kindly informed that the schedule is submitted along with this.

Recommendation

Actions should be taken to correct the accounts by reconciling the changes in the relevant balances.

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. 199,670,282 as per the Sri Lanka Public Sector Accounting Standards for Local Government Institutions and the revenue higher than the recurrent expenditure for the preceding year was Rs. 149,282,566 .

2.2 Revenue Administration

2.2.1 Performance of Revenue Collection

Audit Observation	Comments of the Council	Recommendation
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The arrears of rates and rent balance had increased to Rs. 40,772,000 and Rs. 3,689,000 respectively at the end of the year under review and the amount recovered from the arrears as at 31 December 2021 was Rs. 27,887,773 and Rs. 159,779 respectively.	It is informed that the closure of the area due to the Covid 19 situation has caused this shortage.	Actions should be taken to recover the arrears.

2.2.2 Rent

Audit Observation	Comments of the Council	Recommendation
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(a) Although the Council had given the approval to charge 50 per cent for two years only from the assessment dated 09 December 2000 from 12 shops which were handed over to old shop owners of Seeduwa New Shopping Complex, such charges were levied so for more than 8 1/2 years from the year 2010 to August 2018 . Even though these shops had been re-assessed in June 2017, the assessment was not implemented and the rent (amended) of those shops had been reduced with effect from 01 September 2018 by a Council decision dated 17 August 2018.	It is informed that would that it has been approved to charge 50 per cent on the approval of the Council.	The approval of the Minister in charge of the subject should be obtained for the revision of rental income.
(b) As a result of paying the rent by the lessee who was the owner of the shops No. 06,07,08,09 and 10 of the Katunayake New Market Complex with a delay during the period 2010-2017, the arrears of fines to be received to the Council amounting to Rs. 1,677,409 had not been recovered	Actions will be taken to recover the relevant arrears in future and it is informed that the relevant agreement has been sent for the signature by now.	Actions should be taken to recover the arrears and arrangements should be made to enter into a new agreement.

even by 10 March 2021 . Further, even though the validity period of the agreement signed by the both parties in respect of renting out the shops had been expired from 17 March 2015 a new agreement had not been entered into.

- (c) The rental amounting to Rs. 7,500 per month had been charged from 1 July 2015 to 31 March 2021 for the shop leased out for a post office located in the multipurpose building on Seeduwa Anicut Road and the evidences had not available whether the rent was determined on the basis of an assessment obtained from the Chief Valuer in accordance with the Circular No. LGD / 13/2016 dated 01 November 2016 of the Commissioner of Local Government.
- It is informed that a letter has been sent to the Valuation Department by now to obtain a new assessment.
- Actions should be taken to obtain a new assessment.

3. Operating Review

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

Audit Observation	Comments of the Council	Recommendation
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As a result of non-payment of contributions to the Employees Provident Fund of 24 employees of the Council from the month of April 2003 to April 2013, the Employees Provident Fund had imposed a surcharge of Rs. 1,086,228 and the amount had been paid on 20 February 2020.	It is informed that as it is an unexpected task and it has become difficult to name the officers responsible for considering this fine as a surcharge.	Actions should be taken to recover from the responsible officers.

3.2 Management Inefficiencies

Audit Observation

Comments of the Council

Recommendation

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| <p>(a) As a result of allowing an external party to construct a temporary building for a business purpose in the Seeduwa Village Public Land belonging to the Council in the year 2017 and subsequently ordered to stop it, a case had been filed at the Negombo District Court against the Council requesting by the relevant external party to recover Rs. 15,000,000 out of the total expenses incurred and the loss incurred by him. Nine trials had been called by 17 December 2020 and actions had not been taken to recover the lawyer's fees amounting to Rs. 490,000 paid by the Council to the lawyer to appear in the case from the officer who gave permission to irresponsibly to external parties to construct buildings for business purposes on the land owned by the Council. The Council had not entered into an agreement with the lawyer representing the relevant case and although the lawyer's fee to be paid in one trial was agreed to be Rs. 35,000 as per the letter of the Secretary dated 17 August 2018, due to the fact that the lawyer's fees had been paid in various amounts by exceeding of that amount, a sum of Rs. 175,000 had been overpaid in 09 trials .</p> | <p>An agreement had not been entered into regarding the appointment of the lawyer and fees for the relevant case and it is informed that the payments have been made in respect of the requests made by him from time to time.</p> | <p>Actions should be taken by the Council to enter into an agreement with the lawyer and the Attorney fees should be charged from the officer who had given permission for the construction of the building.</p> |
| <p>(b) When obtaining the necessary approvals to commence a hotel business on the land adjoining the Araliya Lands Public Land owned by the Council, obtaining an area of 05 perches from the common land owned by the Council stating that a 29 feet wide access road is required, instead, it had agreed, to give 6.5 perches of their land to the Council. It was unanimously decided by the Council at its meeting on 29 June 2020 that the proprietary business has another UC route and to provide a part of the public land owned by the council to</p> | <p>Because the details pertaining to this exchange have to be completed, it is informed that the actions will be taken in this regard in future.</p> | <p>Measures should be taken to minimize environmental damage and to protect public property owned by the Council by making arrangements to protect the reserve.</p> |

a private institution without considering the legal conditions such as the possibility of awarding government-owned reserves to access roads, the clear ownership of the exchange land, the value of the exchange land as assessed by the government, and the approvals of the landlords at auction for the use of lands allocated for the public activities and the environmental damage to the area due to loss of canal reserve during development.

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| (c) | Western Province Provincial Commissioner of Revenue had informed that as a result of the stamp duty of Negombo and Gampaha Land Registrar's Offices amounting to Rs.11.539,400 submitted to the Commissioner of Revenue pertaining to the period of year 2017-2018 to take over the stamp duty by the Council cannot be returned to the Council due to various shortcomings in the schedules and actions had not been taken even by 10 March 2021 to make the relevant corrections as per the instructions of the Commissioner of Revenue and to take over the stamp duty amount. | It is informed that it could not be carried out as a result of not allowing to access the relevant land registrar offices because of Covid 19 risk. | Relevant corrections should be made and actions should be taken to take over the stamp duty amount. |
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3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The Council had used the Ambalammulla Pilapitiya paddy land belonging to the Land Reforms Commission for garbage disposal for about 20 years and about Rs. 60 Lakhs had been spent annually to spread the waste with D5D machines using soil for that. Despite the written consent of the Land Reforms Commission in 2011 was informed to sell this land on a government valuation and even though the government had allocated funds for	It is informed that the acquisition of this land to the Council with the consent of the council will be continued	Arrangements should be made to take over to the Council expeditiously.

this, it had impossible to recovery of the possession of this land to the Council on delays in obtaining the consent of the Council and on the negligence of the Management. In spite of the facts that , because of the Land Reform Commission had taken actions on 27 January 2020 to hand over this land to the child of the person who had transferred it, a problem in respect of the garbage disposal of the Council had occurred.

- (b) It was observed at the site inspection that an unauthorized person has been living in the 40 perch plot of land Lot No. 15 / A, 40 perches belonging to Amandoluwa Gorakaragahakumbura and although the Gampaha District Local Government Commissioner had instructed on 30 August 2019 to make arrangements to acquire the possession of the property within 07 days under the Recovery Act No. 07 of 1979 , actions had not been taken so far for the recovery of possession to the Council.
- It is informed that the steps have been taken to make arrangements under the Recovery of Possession Act No. 07 of 1979 .
- Actions should be taken to take over to the Council under the Recovery of Possession Act.