

Wattala Mabola Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Wattala Mabola 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 Wattala Mabola 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(b), (c),(d), 1.2.2, 1.2.3, 1.2.4 and 1.2.5

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 Reference to the Relevant Standard	Comments of the Council	Recommendation
(a) Assets had not been revalued as per No. 18.7 and the letter of the Commissioner of Local Government No. LGD /10A / 4 / 2019 .	It is informed that the actions are being taken to reevaluate the assets by now .	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.
(b) The value of TOYOTA HILUX 4WD Double Cab leased by the Council valued at Rs. 9,690,000 and the interest amounting to Rs. 3,255,480 had not been disclosed in the financial statement as per No.7.7 and by depreciating it, the surplus for the year had been understated by Rs. 387,600. For this, though a sum of Rs. 9,000,000 allocated for cash purchases in 2017, the creditors had also been overstated by that amount because of not correcting the creditors .	Because it was not mentioned that how to account for such vehicles purchased under the old accounting system, it is informed that the it has been noted as a fixed asset.	

(c) Without stating the value of Rs.8,388,624 for unfinished contracts by the end of 2020 as work-in-progress, as per EG 3.1 of Explanation and Guidance of Sri Lanka Public Sector Accounting Standards for Local Government Institutions it had been accounted for as expenses.	It is informed that corrections will be made by financial statements 2021 .	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.
(d) The value of Rs. 12,794,690 accounted for as creditors and assets had not been accounted for as work- in- progress as per EG 3.1 of Explanation and Guidance of Sri Lanka Public Sector Accounting Standards for Local Government Institutions.	It is informed that the work-in- progress will be shown separately in preparing the financial statement for the year 2021.	

1.6.2 Accounting Policies

Audit Observation

Even though the depreciation ratios had been disclosed as 15 per cent for computers and 12.5 per cent for computer software under Accounting Policy No. 3.3 on Financial Statements, the assets related to computers and computer software had not been classified and depreciated accordingly.

Comments of the Council

It is informed that actions will be taken to depreciate after doing revaluation of software assets.

Recommendation

The assets should be depreciated as per the disclosed accounting policies.

1.6.3 Accounting Deficiencies

Audit Observation

- (a) Although the journal entries had been used to account for opening balances as at 01 January 2020 since the different balances were accounted for in 05 accounting items, an opening balance of Rs. 53,119,273 had remained in an reserve and provision account which was not previously existed .

Comments of the Council

It is informed that the arrangements have been made to correct these errors in future.

Recommendation

The accurate balances as at the end of the preceding year should be brought forward.

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| <p>(b) Although a sum of Rs. 68,018,760 was allocated to sundry creditors' accounts through the journal entries for the year 2020, the creditors and assets (buildings) had been overstated by Rs. 22,853,253 whilst accounting for the value of contracts which were not entered into agreements amounting to Rs. 22,853,253 .</p> | <p>It is informed that the activity of obtaining consulting services of this has been commenced.</p> | <p>Provisions should be made only for contracts which had entered into agreements .</p> |
| <p>(c) Although the comprehensive income for the year 2019 had been stated as Rs.41,246,039, in the statement of changes in net assets/ equity for the year 2019, thus the surplus was Rs. 24,272,602 as per the final accounts for the year 2019, the net assets had been overstated as at 31 December 2020 by Rs. 16,973,437 .</p> | <p>Since the final accounts for the years 2019 and 2020 were prepared for two methods, it is informed that it is difficult to compare those figures.</p> | <p>The accurate values for the preceding year should be brought to the accounts.</p> |
| <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 net assets / equity, under unrecognized grants in surplus in terms of No. 9.9 . Nevertheless, although it should be shown as an income by a journal entry for statement of comprehensive income under Note No. 05 based on the calculated depreciation, and without doing so, though the payments have been made in the year under review from the provisions received , the total provision of Rs. 6,485,468 received / to be received had been accounted for under net assets / equity.</p> | <p>Because of the fixed assets are depreciated not in the year of purchase but in the following year, it is informed that the expenditure for the depreciation is identifies in the year following the year in which the assets were identified.</p> | <p>It should be accounted for in terms of the Sri Lanka Public Sector Accounting Standards for Local Government Institutions.</p> |

2. Financial Review

2.1 Financial Results

The surplus of the Council in the financial statements submitted for the year ended 31 December 2020 was Rs. 102,519,308 as per the Sri Lanka Public Sector Accounting Standards for Local Government Institutions and the revenue exceeding recurrent expenditure for the preceding year was Rs. 45,215,921.

2.2 Revenue Administration

2.2.1 Other Income

Audit Observation	Comments of the Council	Recommendation
The balance of arrears of garbage disposal charges to be collected from 416 outlets as at 31 December 2020 was Rs. 9,388,098 and only a sum of Rs. 320,650 has been charged by March 2021 .	Recovery of arrears of charges amounting to Rs. 320,650 had been made from January to March 2021.	Steps should be taken to recover the arrears.

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 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
The Surveyor General had presented a tracing for 28 plots as per the directive given by the Committee on Public Accounts on 07 November 2019 in respect of the land in extent 09 acres and 20 perches purchased by the Council in the year 1973. Accordingly, the extent of excessively possessed in 03 plots of land was 24.33 perches and the extent of plots of land possessed in less from the plots of land belonging to the Urban Council building was 2.34 perches. There were 12 plots of lands 01 acre, 02 roods, 39.13 perches in extent from which claims with rate No.s but not shown in title records on a long-term lease basis or as lands	An investigation on this has been commenced by the Engineer of the Assistant Commissioner Office of Local Government and it is informed that the information can be reported after ascertaining the ownership properly.	Arrangements should be made to ascertain the ownership.

transferred and also there were 03 plots with 01.43 perches that had not included in the rates documents as per the tracing and 02 plots of land with 02.41 perches that was impossible to currently find. Accordingly, actions had not been taken regarding the misuse of lands owned by the Council.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) When inspecting the land leased out to Melco Oxygen Company on September 2020 there was a notice board that said it was a land owned by the Council. Although a wall had been built around the land , Because the building that the company had built was not removed, the rest of the wall had not been completed. By now, A memorandum had been sent to the Council , against the Chairman and the Secretary stating that they would sue with a compensation of Rs. 50 Million and an interest of 12 per cent per annum and it was observed that however, their attempt to acquire this land for the ownership of them had not left.	Although a letter has been sent to the Legal Division of the Department of Local Government on 09 December 2020, as there was no reply received, it is informed that the arrangements will be made to take future actions after receiving the replies since the answers have not been received by now.	Actions should be taken to get the clear ownership.
(b) Failure to assess and revise the lease amount every 05 years for 3 lands in extent 30.4 perches, 01 acre 01 rood 36.89 perches and 0.54 perches leased out for a period of 30 years under Lease No. 737,259,and 294 respectively and due to the long term alienation of the lands of the Council, a great damage had occurred to the Council and also it had been planned to hand over these lands to the lessee on freehold. Further, it was not revealed whether these leases were made following a formal tender process.	It is informed that there is no provision for tender process or revision of rent once in every 5 years as per Circular No. 1986/6 .	Provisions should be made by the agreement once in 05 years to assess and revise the lease amount of the lands which were leased out for long term basis.

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| (c) | <p>Providing the land located at No. 05 , pork stall in Hendala Junction Shopping Complex built by the lessee on 17 October 2012 without any agreement subject to a monthly rent of Rs. 2,500 per year and a deposit of 06 months, the business activities had been carrying out since then. It was not reported that how this stall was given after 2015 and it had been approved at the monthly meeting on 30 November 2020 to be given on the basis of an assessment obtained without a tender stating that it was a stall built by the shop owner for the year 2021. Actions had been taken to provide this stall continuously without agreements and government assessment and excluding the tender procedure and the arrears of this had been Rs. 167,750 by 31 December 2020 .</p> | <p>It is informed that the advice has been sought from the Assistant Commissioner of Local Government on how to proceed because of this decision taken by the Council in contrary to the tender procedure.</p> | <p>Actions should be taken in terms of Government Procurement Guideline.</p> |
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3.3 Deficiencies in Contract Administration

Audit Observation

A sum of Rs. 1,999,837 had been estimated for the construction of Phase I of the Kudaedanda Community Hall and awarding the contract to the only contractor who had submitted a price of Rs. 1,994,518, it had agreed to be completed on 25 June 2019 in 4 months. It had been entered into an agreement of Rs. 988,486 on 25 June 2020 for the Phase II to be completed within 05 months and an agreement had been entered into with the contractor on 18 September 2020 for a Rs. 989,550 as the final stage. An amount of Rs. 3,994,518 was estimated for Phase 3 and without obtaining the approval of the Provincial Engineer as per the letter No. LGD/04/2007 of the Commissioner of Local Government dated 24 May 2017 to the total estimate, the Technical Officer had approved it. Further, although certification should not be done by the officer who prepared the estimate in accordance with Paragraph 3 of the relevant letter, the certification had been done by himself and the approval of the Council had not been obtained for this.

Comments of the Council

Since the phase 1 of the project is less than 20 lakhs, this has been done with the approval of the Superintendent of works of the Council and the remaining 02 estimates are 10 lakhs each, it is informed that the construction works have been done with the approval of the Superintendent of Works.

Recommendation

The approval for the whole estimate should be obtained for the projects with several phases.