

## **Ambalangoda Urban Council – 2021**

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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 Ambalangoda Urban Council including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, 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 Council Ordinance (Chapter 255) and the provision 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 accompanying financial statements give a true and fair view of the financial position of the Ambalangoda Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified 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 General 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 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 Municipal 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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The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Council	Recommendation
(i) The provision for audit fees had not been provided for the year 2021.	The actions will be taken to correct in future.	Should be accounted correctly.
(ii) Although the total loan interest payable for the loan taken for the bus stand project was Rs.40,528,326, however it had been recorded as Rs.40,629,369 by overstating Rs.101,043.		
(iii) Although the outstanding loan amount for the bus stand project as at 31 December 2021 was Rs.23,467,280, however it had been over-accounted by Rs.577,776 as Rs.24,045,056.		
(iv) The interest amounting to Rs.1,888,533 payable till the year 2019 for the loan amount obtained in the year 1998 for the acquisition of machinery and equipment had not been not accounted.		
(v) The rent and water charges due for leasing a part of the municipal stadium owned by the municipality to a sports club were not calculated and taken in to accounts.		

## 1.6.2 Non reconcile control account or report

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Audit Observation	Comment of the Council	Recommendation
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There was a difference sum of Rs. .4,205,739 in between the balance value of 09 accounting items in the financial statements and balance value in relevant utility registers as at 31 December of the year under review.	Actions will be taken to rectify by finding the differences	Action should be taken to identify and correct differences.

## 1.7 Accounts Receivable and Payable

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Audit Observation	Comment of the Council	Recommendation
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Accounts Receivable		
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The action had not been taken during the year under review to recover 04 receivable balances as per the presented financial statements, the sum of amounting to Rs.15,895,690 in the accounts of electricity compensation account, arrears of inn rent account, arrears entertainment tax account, arrears of billboard fees, which have been carried forward since 1983.	The action will be taken to recover by checking the information.	Receivable balances should be recovered.

## 2. Financial Review

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### 2.1 Financial Result

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs.35,006,166 as compared with excess of revenue over recurrent expenditure amounted to Rs. 23,386,431 in the preceding year.

### 2.2 Revenue Administration

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Audit Observation	Comment of the Council	Recommendation
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(a) Rates and tax		
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The total outstanding assessment and tax balance due from 10762 assessment tax units was Rs.35,098,989 as at 31 December of the year under review. Out of this outstanding amount, there was an outstanding balance of Rs.8,014,482	The actions will be taken to recover outstanding balances by conducting mobile programs.	Arrears of assessment tax should be recovered.

from 39 assessed tax holders with more than Rs.100,000. Three revenue inspectors were employed, however only notification was made by letters to collect revenue.

(b) Rent

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The total arrears of tax and rent balance was Rs.3,438,639 as at 31 December of the year under review. 188 shop agreements related to all 09 shopping complex were not repaired, and the shop rooms had been rented for a long time without repair and were in a dilapidated and unusable condition.

The plans are being done to renew the agreement and collect the outstanding balance and build a new complex. Agreements should be renewed and arrangements should be made to recover outstanding balances.

**3. Operational Review**

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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 Council Ordinance are shown below.

**3.1 Management Inefficiencies**

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Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) Solid Waste Management -----		
The council collects between 18-20 tons of degradable and non-degradable garbage per day and piles it in the Halvatura land, and covers them with soil, and the council did not have a long-term plan regarding the garbage. Furthermore, in the year 2017, the construction work of the waste separation centre, which cost Rs.353,948, was not completed.	The action will be taken to prepare a formal plan for waste management.	A formal waste management plan should be prepared.
(b) The Budget -----		
(i) The budget presented for the year 2021 of the Ambalangoda Municipal Council was not passed in the council, and according to the related Local Government Commissioner's letter No. 4/03/09/2 sent on 20 January 2021, the budget presented for	The action will be taken to approved.	The budget should be approved according to the Municipal Ordinance.

the year 2021. It has been observed that there is no problem arises regarding the adoption of the document by the Council.

(ii) In this regard, the members of the Municipal Council had filed a case in the Balapitiya High Court, and the Balapitiya High Court ordered on 29 July 2022 that the budget for the year 2021 be legally adopted in accordance with the powers received under the Municipal Council Ordinance Act and following the proper legal procedure. .

The action will be taken to approved.

The budget should be approved according to the Municipal Ordinance.

### 3.2 Operating inefficiencies

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Audit Observation	Comment of the Council	Recommendation
----- Agreement made with the Council -----	----- It has been announced by the Governor of the Southern Province through Extraordinary Gazette No. 2267/4 effective 14 February 2022, that it had been removed	----- It should be done according to the Act.