

Chavakachcheri Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chavakachcheri Urban Council for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information 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 provisions of section 181 (1) of Urban Council Ordinance (Cap.255) and 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 Chavakachcheri 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

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

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.

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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of the Urban Council is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) 21 work schemes valued at Rs. 18,380,130 carried out by the council in the year under review had not been completed. However, payment vouchers had been prepared therefor and included in the sundry creditors account, thus current liabilities had been overstated and revenue surplus had been understated.	Work schemes will be completed in due periods in a manner that preventing such errors in ensuing periods.	It should be ensured timely disclosure in accordance with accounting policies and follow-up actions should be expedited in this regard.
(b) Even though loan of Rs. 3,244,350 to be paid in the year 2022 for local development loan should have been disclosed as current liabilities, it had been included in the loan capital, thus loan capital had been overstated by said value.	Action is being taken to prevent such errors in ensuing periods.	It should be ensured timely disclosure in accordance with accounting policies and actions should be taken to disclose said values as current liabilities in ensuing periods.

1.6.2 Unreconciled control accounts

Audit Observations -----	Comments of the Sabha -----	Recommendations -----
According to the documents of assessment tax (Form 29), assessment tax receivable for the year 2021 was Rs. 6,184,799. However, balance of the rates and taxes shown in the income and expenditure account in the financial statement of the year under review was Rs. 6,364,785, thus there was a difference of Rs. 179,986.	Action is being taken to rectify this error.	The error should be rectified in the relevant documents.

1.6.3 Non-submission of Documentary Evidence for Audit

Item	Amount	Evidence not submitted	Comment of the Council	Recommendation
-----	-----	-----	-----	-----
	Rs.			
Ten land and buildings	226,100,000	vested order	Action is being taken to transfer the ownership to the council.	Actions should be taken to get vested order and submitted to audit.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs.47,715,189 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 47,711,960.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observations	Comments of the Council	Recommendations
-----	-----	-----
(a) Rates and Taxes It has been observed that no meaningful actions had been taken by the council for more than last 03 years to recover arrears of rates and taxes and assessment tax totalling Rs. 14,147,726. Also, the age analysis of outstanding revenue has not been submitted for audit.	The annual balances could not be verified due to defects found in the software. Therefore, a request has been given to the institution that has designed the computerized software to prepare a report in order to get the report regarding the annual balances. The annual balances will be disclosed in the future.	Effective appropriate action should be taken to make efficient revenue collection management and recover the arrears expeditiously.

- (b) **Rent**
 No meaningful actions have been taken to recover the lease arrears of Rs 294,005 for more than 01 year at the end of the year under review. Even though bids had been called for leasing out said shops, no one has obtained the shops. Meaningful actions should be expedited regarding the said balance.
- (c) **Other Revenue**
 Action had not been taken to recover other income outstanding amounting to Rs. 1,187,870 over the last 02 years. A sum of Rs. 1,187,870. 23 is being shown as outstanding from previous years. Further action is being taken in this regard. Meaningful action should be expedited regarding the said balance.

3. Operational Review

The matters observed in respect of execution of activities that should be executed under Section 4 of the Urban Councils Ordinance such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
-----	-----	-----
A fixed deposit fund of Rs 89,893,761 was deposited in the bank for the purpose of earning interest income without being used for city development.	Approval had been obtained for withdrawal of fixed deposits worth Rs. 24 million from the said fixed deposits for the development work schemes through honorable governor's letter no. G/NPC/A4/LG/Approval/80/2019 dated 14 October 2019 and work schemes are being carried out.	It should be ensured that council funds are used for operational activities at the optimum level without waste.

3.2 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
-----	-----	-----
(a) Employee Loan No meaningful action has been taken by the council to recover the distrss loan of Rs. 88,478 due from 04 officers who has resigned from the service and retired for over the	After being informed by the divisional secretary that there is no proof of residence of the above officers in the said area, the	Actions should be taken as per the provisions of the establishment code to collect the loan

last 04 years during the year under review.

council had been given approval to take action for writing off.

balance in due time.

(b) Employee security

According to the Provincial Financial Circular No. PF/01/2017 (a) dated 07 March 2020, no meaningful action has been taken by the council for a long time to return security money of Rs. 172,489 received by the council from 24 officers or to take appropriate action although the said officers are not currently serving in the council.

A letter has been sent to the concerned persons to refund the employee security and a sum of Rs 41,891.64 has been refunded so far. Appropriate action has been taken to return the excess money and action is being taken to transfer the money of those who have not received it to government revenue.

Steps should be taken to refund the security money.