

Maharagama Urban Council

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maharagama Urban Council including the financial statements for the year ended 31 December 2021 Statement of assets and liabilities as at 31 December 2021, Income Comprehensive Statement, 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). 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 Maharagama urban Council as at 31 December 2021, 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 expressed 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 made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

Paragraph reference	Audit Observation	Recommendation
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2.2	The current account No.607629 had been closed in August 2015, a nominal value of Rs.2,052,258 had been shown in the accounts even during the year under review.	Action should be taken to settle.

1.6 Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) Although According to the letter dated 1 February 2021 and No. LGD/10A/4/NA/2019 and of the Local Government Assistant Commissioner all fixed assets owned by the institution should be revaluated for at the time of submission of financial statements for the year 2020 , as per the Asset Management Circular No. 4/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media, the Urban Council had not revaluated the assets even in the year under review.	In this regard action will be taken in this year.	Action should be taken to reevaluate all fixed assets and accounted for.

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| (b) | Although Rs.23,789,981 had been received as capital grants for the year under review, capital grants had not been shown under Note No. 10 of the comprehensive income statement. | Although this was not entered in Note No. 10, the value was recorded in Note No. 04 of the Physical Plan column under Other Donations Provincial Councils and has been reconciled as income in the statement of comprehensive income. | Action should be taken to account correctly. |
| (c) | Out of the capital grant amount of Rs.97,582,197 of previous year 10 per cent of the value amounted to Rs.9,758,220, should be shown under provisions from the government for non-recurring expenses in the comprehensive income statement, but it had not been shown in the financial statements. | Action will be taken to rearrange the Note No. 05 and included in the comprehensive income statement at the time of the preparation of the 2022 accounts. | -do- |
| (d) | After adjusting the value under Note No. 5 from the capital grant value of the previous year, the remaining value and the capital grant value of the year under review should be shown as Rs.111,613,958 under unidentified capital grants in the statement of assets and liabilities, but this had not been shown in the financial statements. | Action will be taken to correct. | -do- |
| (e) | Although 204 projects had been completed during the year 2021 at a cost of Rs.161,753,480 from the Council Fund, the value of those projects had not been accounted for under the property, plant and equipment. | Action will be taken to correct. | All completed construction projects should be capitalized. |
| (f) | The value of 10 work in progress projects funded by the Council Fund was Rs.22,205,682 and those had not been accounted for in the financial statements under work in progress. | Action will be taken to correct. | The work in progress should be properly accounted for. |

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| (g) | According to the instructions of the Commissioner of Local Government of the Circular No. LGD/09/4/2019(1) in August 2020 all assets should be accounted under property, plant and equipment, but the value of roads, culverts and bridges had not been accounted under property, plant and equipment and depreciation for this was also not been accounted for. | This error will be corrected at the time of the preparation of the 2022 final accounts. | Action should be taken to follow the instructions of the circular. |
| (h) | In the Note to property, plant and equipment, the depreciation related to the disposal of library books and the cost and depreciation related to the sale of assets had not been adjusted. | Inform that the removal of library books has been adjusted and depreciation has also been done. | As the information mentioned in the observation is not in the Note, the accounts should be accounted correctly. |
| (i) | Although the depreciation of property, plant and equipment it was Rs.64,387,924 according to the income statement, the correct depreciation value was Rs.31,896,139, as a result the depreciation of property, plant and equipment was over-accounted for Rs.32,491,785, so the deficit of the period had increased. | In the year 2020, adjustments are made to the Accumulated Fund through the Depreciation Account of two types of assets for which no depreciation has been calculated. Action will be taken to correct in financial statements of 2022. | Correct depreciation amount should be accounted for. |
| (j) | Although the withholding tax (WHT) for public institutions should not be deducted when calculating the interest earned on fixed deposits, as a result of withholding tax of Rs.121,861 on the interest earned on 03 fixed deposits accounted less the income was understated by that amount. | This was done by the National Savings Bank. In the previous year also, interest (WHT) was deducted from several fixed deposit accounts. It appears that despite several written notices to the bank not to deduct WHT, they are not paying attention it. This time also the tax deductions will be requested again in writing from the bank. | The correct interest value should be accounted for. |

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| (k) | Although when preparing the cash flow statement, the year's surplus or deficit under operating activities was shown as Rs.678,879,509, according to the comprehensive income statement, the deficit was Rs.47,172,349 and as a result difference of Rs.631,707,160 was observed. | Action will be taken to correct. | Differences should be identified and account balances should be corrected. |
| (l) | In the cash flow statement, under investing activities, property, plant and equipment purchases Rs.828,378,427, dividends received Rs.1,898,690 and interest received Rs.6,178,215 had been shown more. | -do- | Differences should be identified and accounted accurately. |
| (m) | In the cash flow statement, under financing activities, the loan interest payment of Rs.204,348, the capital expenditure grant amounting to Rs.2,379,981 and the capital grant expenditure amounting to Rs.68,962,914 had not been shown. Also, the loan payment amounting to Rs.2,400,000 had been overstated. | -do- | Differences should be identified and accounted correctly. |
| (n) | Although the fixed deposit interest related to the under review year was Rs.17,618,530, due to it was recorded as Rs.15,417,846 in the financial statements. The income has been accounted less by Rs.2,200,684 | -do- | Action should be taken to account properly. |
| (o) | Although the amount of interest receivable on fixed deposits for the year was Rs.4,494,077, due to accounted as Rs.2,293,393, the interest receivable has been accounted less by Rs.2,200784. | -do- | -do- |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Although according to the statement of assets and liabilities, the accumulated surplus or deficit was Rs.678,879,509, according to the statement of change of equity it was shown as Rs.679,451,690, and there was a difference of Rs.572,181.	It is a continuous difference. Action will be taken to correct.	Account balances should be corrected after reconciling the differences.
(b) Balance shown in the financial statements relating to nine items of account were in excess by Rs.37,568,135 and less by Rs.20,372,196 when compared with the balances in the supporting documents/reports of the financial statements.	Action will be taken to correct the difference coming from many years.	-do-
(c) Although the balance of the Urban Development Fund investment account is Rs.38,611,503, the balance of that deposit account was Rs.45,472,612 and a difference of Rs.6,861,109 was observed.	This had been happened due to Rs.6,000 of House Rent Board staff allowances being recorded in the unpaid salary deposit schedule. It will be corrected.	-do-
(d) Although according to the schedule, Rs.43,366,123 was paid to the Waste Management Authority for the disposal of garbage, according to the expenditure of financial statements it was Rs.44,851,272, and a difference of Rs.1,485,149 was observed.	Noted to verify the correctness of the balances shown.	-do-

1.6.3 Lack of Documentary Evidence for audit

Audit Observation -----	Comments of the Council -----	Recommendation -----
Related schedules had not been submitted and it was unable to satisfactorily voucher them at the auditing of eight items of accounts aggregating Rs.9,866,664 .	Correction will be made at the final accounts preparation of the year 2022.	Detailed schedules should be submitted.

1.6.4 Accounts Receivable

Audit Observation -----	Comments of the Council -----	Recommendation -----
Six cheques valued at Rs.75,293 given by customers for the period from 2010 to 2021 for payment of rates and taxes, three cheques valued at Rs.212,472 given for notice board fees and one cheques valued at Rs.40,950 received for stalls rent had been dishonored cheques and action had not been taken to recover the money.	Actions have been taken by now to recover the money for the dishonoured cheques pointed out by the audit.	Action should be taken to recover the amount due immediately.

1.7 Non-Compliance

1.7.1 Non-Compliance with Laws, Rules, Regulations and Management Decisions

Instances of Non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules Regulations and Management Decisions -----	Non-compliance -----	Comments of the Council -----	Recommendation -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- Financial Regulations 396(d)	Fifty two cheques issued had not been presented for payment over 06 months and had not been settled even as of 31st December 2021.	Action is being taken for the 52 cheques identified in the audit.	Should be act in accordance with the F.R. 396 (d) .

(b) **Treasury Circulars**

Circular No. 842 dated 19 December 1978	Although a fixed asset register was maintained it had not been updated.	Action will be taken to correct	Should be act in accordance with circular
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2. **Financial review**

2.1 **Financial Results**

According to the financial statements presented, the excess of expenditure over recurrent revenue of the Council for the year ended 31 December 2021 amounted to Rs.47,172,349 and excess of revenue over recurrent expenditure of the preceding year amounting to Rs.331,691,844.

2.2 **Revenue Administration**

2.2.1 **Performance of Revenue Collection**

The following are the observations regarding the performance of revenue collection of the council.

Audit Observation -----	Comments of the Council -----	Recommendation -----
(A) Rates and taxes -----		
(i) Although the rates billed for the year under review amounted to Rs.244,429,353, the council had failed to recover Rs.55,556,313 which is 23 per cent. Further, although the number of properties of which rates and taxes can be charged as of 31 December 2021 was 91132, the outstanding balance of rates and taxes recoverable from 72504 lessee tenants was Rs.201,664,734.	In 2020 and 2021, rates and taxes payments had been come down due to the Covid epidemic situation. 04 mobile services in December 2021 and 35 mobile services in the year 2021 have been continued to recover arrears. Arrears lists relating to more than Rs.50,000 have been given to the Revenue Inspectors and arrangements have been made for collection. Rs.47,357,602 have been collected from the total outstanding amount from 1 January 2022 and up to now.	Immediate action should be taken to recover the rates and taxes revenue.

(B) Rent

- (i) Although the stalls rent billed for the year under review amounted to Rs.23,305,410, the council had failed to recover Rs.6,506,329 which is 28 per cent. The closure of the country due to the quarantine law imposed as a result of the Corona epidemic situation in the year 2021 also led for the decrease in payments. Action should be taken to recover the arrears stalls rent.
- (ii) The outstanding stall rent balance was Rs.9,370,439 of as at 1 January 2021, and it was failed to recover Rs.6,304,365 or 67 per cent of it. In the arrears shown, there is also a deficit from 12 shop bakkies returned to the council of which trading cannot be in the weekly market. Rs.900,000 that should be written off due to the Corona epidemic is also in this arrears. Final notices for all arrears have been issued by now. After the due days were over legal proceedings will be initiated. Action should be taken to recover the arrears stalls rent.
- (iii) According to section No. 03 of the shop lease agreement, it is stated that if the rent is delayed for more than three months, the lessee will be lose the commercial right of the property, but between 03 months and 07 years, there were 153 stalls with outstanding rent of Rs.10,478,176. Action had not been taken according to the above section. Final notices have been sent to all stalls and weekly shop bakkis due to pay arrears. After 14 days, it legal action will be taken. It should be done according to the lease agreements.
- (iv) According to the agreement, lease agreements should be renewed in 03 years or 05 years, but more than 123 lease agreements had already expired but no new agreements were signed. Also, there were cases where shops were leased out without signing lease agreements. -do- Lease agreements should be dealt with and new agreements should be entered into for shops that do not have agreements.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
<p>Inspection of Security Services</p> <p>Since 2017, the security service had been obtained from the same company and had signed an agreement with the vezpro institute until 2022 without calling for tenders, renewing the contracts year after year. Further as per Section 04 of the Security Service Agreement, it was agreed to pay Rs.1,317 for one security guard for a 12-hour shift, but due to the payment of Rs.1,517 from September to December 2021 contrary to that the security service had been paid a sum of Rs.1,429,600 (7148 x 200) more.</p>	<p>According to No. 2/8/2/1(1) and letter dated 2011.09.30 of the Western Provincial Chief Secretary the Administrative Committee bearing No. 3751 dated 21.12.2016 had decided to offer, Western Provincial Council's security service agency Vespro to provide security services to Maharagama Municipal Council for the year from 01.02.2017. Accordingly, the period has been extended by year. In the monthly general meeting held on 28.10.2021, accepted the new prices presented by the Vespo institution. Accordingly, payments have been made as per the new rates from September 2021. It was unable to sign an agreement including new prices and same prices agreed for the year 2022 too.</p>	<p>Agreements should be entered into annually and should be act according to the agreements.</p>

3.2 Operating inefficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) Although Urban Council has the power to cancel the lease agreements, whenever a lessee defaults payment for over six months. Action had not been taken by the Council to cancel the rent agreements of 109 trade stalls which had delayed payment</p>	<p>Final notices have been sent on 15.06.2022 to all stalls where the stall agreement has ended. If the contract is not renewed within 14 days, legal action will be taken.</p>	<p>Should be complied with lease agreements.</p>

amounting to Rs.7,058,936 from 6 months to 3 years and to acquire them to the Council.

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| (b) | Although the Council had paid a total of Rs.24,554,972 including Rs.13,717,577 to the Urban Development Authority in the current year for the acquisition of the Navinna Stadium , it had not been acquired by a deed even as at 31 December 2021. | Requests have been made on 2020.07.13, 2020.08.21, 2020.12.27 and 2021.07.07 to hand over the Nawinna stadium to Maharagama Municipal Council. By the letter No. 10/2/1587 and dated 10.06.2020 of Land Development and Management of Urban Development Authority, it has been informed that there is a further outstanding amount of Rs.4,912,236 to be paid .At the discussion in this regard, it has been requested to be handed over this to the council. | Action should be taken to take over. |
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3.3 Solid Waste Material Management

Audit Observation	Comments of the Council	Recommendation
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(a) Although there are 186 business places where garbage was disposal by the Council, those businessmen were unable to work legally it was unable to take legal action as they had not formally entered into agreements.	Garbage tax was first collected from the year 2018. Due to the Covid pandemic situation at the beginning of 2020, many business institutions have informed that they are unable to pay the garbage tax. Some institutions are closed. Arrangements are currently being made to enter into an agreement with the relevant institutions.	Action should be taken to sign agreements.

- (b) Although according to the summary income statement, the garbage income was Rs.4,572,857, according to the schedule, the garbage income was Rs.6,935,700, and the garbage income of Rs.2,362,843 had not been accounted.
- Due to the lockdown of the country due to the Covid epidemic situation, this situation has arisen and it was unable to collect money.
- Correct income should be accounted for.

3.4 Asset management

Audit Observation	Comments of the Council	Recommendation
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Although according to the information provided to the audit, the Council had 77 properties, according to the fixed assets register, there were 46 properties and a difference of 31 properties was observed. Also, although the value of 38 properties had been assessed as Rs.10,969,916, the value of the remaining properties had not been assessed.	Accept. Action will be taken to get correct fixed asset revaluations and current usage verifications.	All properties should be assessment and documents should be regularly updated.

3.5 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
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As of 31 December 2021, there were Rs.984,012 from 15 deceased and retired officers, Rs.886,666 from 19 who had left the service and Rs.1,328,567 from 16 transferred officers, totaling Rs.3,199,245 but action had not been taken to recover.	Actions are being taken to recover the loan balance.	Action should be taken to recover the loans immediately.