

Katunayaka Seeduwa Urban Council -2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katunayaka Seeduwa Urban Council including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income, statement of changes in net assets /equity, cash flow statement for the year and notes to the financial statements including summary of 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 Section 181 (1) of Urban Council Ordinance (Cap.255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Katunayaka Seeduwa Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Srilanka Public Sector Accounting Standards for Local Governments.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Standard for Local Authorities 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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 Council
- Whether the Urban Council 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 includes specific provisions for following requirements.

- The financial statements of the Municipal Council are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

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

Audit Observation	Comment of the Sabha	Recommendation
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(a) A Motor Car received as a Donation valued for Rs.1,300,000 had been stated the whole amount as a detailed revenue for the year under review without realizing a depreciation value under note no.05 of the comprehensive income statement.	Inform that the actions would be taken to make this correct by the final accounts for the next year.	Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards.
(b) The details regarding Law Suits by the institution or the Law Suits against the institution had not been provided according to the Standard No.11.10 and the Section 06 of the letter No. LGD/10A/4/20.8/2019 dated 12 February 2021 by the Commissioner of Provincial Councils.	Inform that the actions would be taken to make this correct by the final accounts for the next year.	Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards.
(c) A Separate Column should be used to state the Reserves and Allocations in the Statement of Equity Changes according to the Standard No.18.5(c) and the Section 02 of the letter No. LGD/10A/4/20.8/2019 dated 22 February 2021 by the Commissioner of Provincial Councils	Inform that the actions would be taken to make this correct by the final accounts for the next year.	Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a.) A 21 perches Land of Rs.4,200,000 named Katunayaka Ambagahawatta owned by the Sabha which could not be physically verified had been reported in the Financial Statements but no facts had been declared in the Financial Statements on failure to verify it physically.	Inform that actions would be taken to make this correct by the next year.	Actions should be taken to state it accurately.
(b.) Rodrigo Watta Main Road that estimated to lay concrete by Rs.2,000,000 during the year 2019 had been developed by laying tar in the year 2021 except for laying concrete but the Rs.2,000,000 estimated in the year 2019 had been overstated as Work in Progress as at the end of the year under review even though the value of the road had been entered under the non-current Assets.	Inform that actions would be taken to make this correct by the next year.	Actions should be taken to state it accurately.
(c.) The Community Hall at Thel Kochchi Road valued for Rs.40,000,000 and stated under the Buildings but an amount of Rs.1,662,461 had also been stated in the Work in Progress therefore the Work in Progress had been overstated by that amount.	Inform that actions would be taken to make this correct by the next year.	Actions should be taken to state it accurately.
(d.) The Key money of Rs.864,000 received for the year under review had been stated as an amount received for the last year.	Inform that actions would be taken to make this correct by the next year.	Actions should be taken to state it accurately.
(e.) The Weekly Fair Rent Income received during the year of Rs.425,333 for the year 2020 that had been offset by a deposit from the year 2019 had been stated as a revenue for the year under review instead of crediting the debtors.	Inform that actions would be taken to make this correct by the next year.	Actions should be taken to state it accurately.

- (f.) A cheque received from the bank to redeem the Employee Securities of Rs.22,523 had not been adjusted Cash and Cash Equivalents balance in the cash flow statements at the end of the year. Inform that actions would be taken to make this correct by the next year. The cash flow statement should be accurately made.

1.6.3 Unreconciled Control Accounts

Audit Observation

Comment of the Sabha

Recommendation

There was a difference of Rs.6,558,827 relevant for rates and taxes as at 31 December 2021 between the balances as per the financial statements and the balances as per the corresponding reports.

Actions would be taken to make it correct by the next year.

Actions should be taken to reconcile the balances and make them correct.

1.7 Non-Compliances

Non Compliances with the Rules, Regulations and Management Decisions

Non-Compliance with Reference to the relevant standard

Non- Compliance

Comment of the Sabha

Recommendation

The Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- i. Rule No.103(1)(b) and No.104

Actions had not been taken according to the Financial Regulations on the Three Wheeler met with an accident on 05 July 2021 and the amount of Rs.10,405 that had not been covered by the insurance had been recovered by the Sabha Fund.

Agreed to be guilty under Financial Regulation No.103(1)(b) of not making a complain to the Police and action would be taken to carry on an investigation on this matter and recover the loss by the salary of the responsible driver.

Actions should be taken according to the Financial Regulations.

ii. Rule No.396(d)	Actions had not been taken on 36 cheques belongs to a State Bank issued but not cleared cheques of Rs.926,976.	Inform that actions are being taken to take all the income to the Sabha Revenue	Actions should be taken according to the Financial Regulations.
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2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess amounted to Rs.193,042,302 for the year ended on 31 December 2020 as compared with the corresponding excess for the preceding year amounting to Rs.199,670,282.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

	Audit Observation	Comment of the Management	Recommendation
(a)	The rates in arrears as at 01 January 2021 had been raised by Rs.9,096,000 as at the end of the year under review and the arrears balances regarding 80 commercial institutions had been over Rs.50,000 of Rs.12,651,743 included in the balance as at the end of the year under review.	Inform that actions are being taken to recover still arrears amount of rates.	The actions should be taken to recover the arrears income.
(b)	The estimated License Fees for the year under review had been Rs.5,001,000 but the amount billed and recovered had been Rs.3,163,000 and the Business Survey had been observed 563 Businesses but License obtained only by 313 businesses, therefore legal actions had not been taken against the businesses which did not pay.	Inform that legal actions had not been taken on this matter because of the Corona Pandemic Situation.	Legal Actions should be taken on the businesses which did not obtained the License.

2.2.2 Rent

	Audit Observation	Comment of the Management	Recommendation
(a)	50 per cent out of the valuation amount could be paid for only for 02 years from 31 May 2010 to 31 May 2012 under the sanction of the Sabha for 12 Stalls given in Seeduwa New Market Complex to the Old Stall owners but it had been recovered 50 per cent from the year	The acceptance had been received on 27 September 2019 to recover 50 per cent of the rent.	Actions should be taken according to the government valuation.

2010 to August 2018, for 8 ½ years. The valuations given in June 2017 had not been implemented and the rent had been amended by the 01 September 2018 under a decision taken by the Sabha till December 2021 even though the monthly rent should be revised under a state valuation every 03 years according to the Circular No.LGD/13/2016 dated 01 November 2016 by the Commissioner of Provincial Council it had not been done so.

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| (b) | Even though a Valuation Report had been received for the stalls at Katunayaka Shopping Complex on 30 July 2019, a valuation older than 07 years issued in 2013 for 06 stalls and 50 percent of the valuation made in the year 2013 of 04 stalls had been recovered until December 2021. | The new assessed rent had been raised on 29 August 2014 therefore request had been made asking for fair decision. After forwarding that request to the Board Meeting on 27 September 2019 it had been decided to hire the old rent. | Actions should be taken according to the government valuation. |
| (e) | 06 Stalls had been rented to Ceylon Co-op City in the Seeduwa Shopping Complex and one stall at Katunayaka Shopping Complex the Lease agreements of these stalls had been expired on 17 march 2015 and 04 December 2015 respectively. Actions had not been taken by any of the two parties to renew the agreements even though the 06 years over the validity period. | The new valuation amount would be implemented by the January 2022 and a memorandum had been sent on receiving a new valuation for the Seeduwa Shopping Complex on 24 February 2022. | Actions should be taken to make legitimate agreements. |
| (f) | Stall No.01 and Satal No.02 had been given on rent in Katunayaka Common Market without a valuation by the chief valuation officer from 01 July 2021 to 31 December 2021 for rs.7,500 and Rs.7,700 respectively and it had been decided publish the Bid Notice without a proper valuation the minimum bid for Rs.7,500 and Rs.7,700 respectively on 07 October 2021. | A temporary valuation had been carried out under a decision taken by the Sabha on 25 February 2021 and recovered that valuation and inform that the rent had been recovered on that valuation in the year 2022 also. | The rent should be recovered on a valuation made by the Chief Valuation Officer. |
| (g) | It observed by the Physical Investigation carried out by the Audit on 15 November 2021 on leasing out the everyday fair at Awariyawatta, that the lessor had being charged the lease rent from the 37 unauthorized stalls build on the pavement. | It had been informed further not to collect rent from the unauthorized stalls and even though it had been decided to evacuate these stalls it had been cancelled temporary considering the adverse economic situation in the country. | The rent should not be recovered by the unauthorized stalls. |

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a.) When acquiring the lands from residents for the road block from Seeduwa Liyanagemulla Road to Karunaratne Mawatha who used the railway reserve as their entrance road, Sabha had let to use the Station Road and a compensation of Rs.1,887,000 on the valuation for the Land Plot No.01 and deposited it to the Divisional Secretary Katana on 23 February 2017 except for acquiring a 10 feet neck of land to the Sabha and let all the residents use Karunaratne Mawatha and a compensation of Rs.882,500 on the valuation for the Land Plot No.11. According to the Land Acquisition Act an interest of 7 per cent should be paid other than the compensation amount for the time receiving the emergency possession of the land until the completion of the payment of compensation, therefore a huge amount of interest also should be paid when acquiring the Land Plot No.01. A valuation would be valid for 03 years but it had been over 05 years now therefore it had been observed that the amount of compensation and the interest would be more than expected.	The lands had been acquired under Section 04 of the Urban Council Ordinance and state that action would be taken to pay the compensations punctually. The Land Acquisition is a long process with the participation of lot of institutions. Also a delay had been occurred due to the Covid Pandemic and all the documents had been rendered to the Assistant Commissioner of Provincial Council.	Payment of compensation should be favourable to the Sabha and it should be done without delays.
(b.) Even though the Employee Loans maximum debit limit had been Rs.5,000,000 according to the Budget 2021, the balance as at the end of the year under review had been Rs.29,457,290 therefore the maximum debit limit had been exceeded by rs.24,457,290.	Inform that actions would be taken to impose sufficient maximum and minimum levels by the next year.	Maximum and minimum levels should be imposed on the employee loans.

3.2 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
----- It had been revealed by the physical investigation carried out on 12 November 2021 that a part of the Community Hall at Seeduwa- South owned by the Sabha had been given to person free of charge to maintain a fitness centre since year 1997 without a legal document.	----- Inform that the relevant officers had been informed to take actions on this after further necessary investigations.	----- The Sabha Property should be consumed for the welfare of the public regularly and legitimately.