

Peliyagoda Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Peliyagoda Urban Council for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statement of comprehensive income statement, statement of changes in equity, cash flow statement, significant accounting policies and the summary of 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 the sub-section 181(1) of the urban Council Ordinance (255 Authority) and the provisions of 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 Peliyagoda 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

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 Responsibility for the Audit of 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 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 financial reporting process of the Urban Council.

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (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 skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed and identify and assess the risks of material misstatement of the 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 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 Urban 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.

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statements of the Urban Council are corresponded with financial statements of the previous year.

- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (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-compliances with Sri Lanka Public Sector Accounting Standard for Local Authorities

Audit Observation	Comments of the Council	Recommendation
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(a) Depreciation of property, plant and equipment was not done as per No. 6.11.	I would like to inform that the accounting will be done according to the new standard in next year.	Should be followed the Sri Lanka Public Sector Accounting Standards for Local Authorities.
(b) Payments made during the year from capital expenditure grant receiving under note No. 10 to the financial statements should be deducted as recognized grants in surplus and the balance recorded under unrecognized grants in surplus under net/assets/equity as per No. 9.9, but the capital assistance of Rs. 3,253,153 which should have been received from external institutions for the year under review was not accounted accordingly.		

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| <p>(c) Although roads and culverts and other infrastructure items are to be accounted under property, plant and equipment as indicated under EG 3.2 included in the detailed instructions for standards, the roads, culverts and drains which had been developed at an expenditure of Rs. 16,056,292 in the previous year and Rs. 5,997,225 in the year under review were not accounted.</p> | <p>I would like to inform that the accounting will be done according to the new standard in next year.</p> | <p>Should be followed the Sri Lanka Public Sector Accounting Standards for Local Authorities.</p> |
| <p>(d) Although any capital work in working progress as per EG 3.1 included in the detailed explanations for standards should be indicated as a separate item in the property, plant and equipment register, the value of 6 industries of Rs. 8,425,448 was not indicated in the accounts at the end of the year under review.</p> | <p>I would like to inform that the accounting will be done according to the new standard in next year.</p> | <p>Should be followed the Sri Lanka Public Sector Accounting Standards for Local Authorities.</p> |
| <p>(e) According to No. 3.5 and according to the Local Government Commissioners' letter No. LGD/10A/4/N.Gi/2019, fixed assets should be classified under 14 types when preparing financial statements, but the grouping of fixed assets in the financial statements of the year under review was classified under 6 categories.</p> | <p>I inform that the fixed assets have been presented under 06 categories in the Municipal Council accounts as assets are only on accordance with 06 categories.</p> | |

1.6.2 Accounting Policies

Audit Observation	Comments of the Council	Recommendation
Although it was disclosed that computer software was recognized as an asset in the financial statements, the software system used by the council worth Rs. 1,400,000 was not accounted.	I inform that it will be corrected from the accounts of the year 2022.	Should be act in accordance with accounting policies.

1.6.3 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The library books which were purchased in the year under review and in the previous year which were Rs. 100,080 and Rs. 102,383 respectively were not accounted under non-current assets.	It will be corrected by the final account of the year 2022.	Should be accounted correctly.
(b) Due to the debiting of Rs. 1,361,515 worth of timber and machinery purchased in the year under review to the supplies and equipment expense account and crediting the reserve account, the property, plant and equipment surplus were understated by that value and the reserves and provisions account was overstated.		

- (c) The value of 03 computer machines and a printer which had been donated to the Municipal Council was not accounted under non-current assets.
- (d) As 02 locker units worth Rs. 178,168 and a brass lamp worth Rs. 23,000 were double accounted under furniture and fittings, non-current assets were over-accounted by Rs. 201,168 in the financial statements.
- (e) While recording the opening balance of assessment and tax for the year in ledger account, only the balance of assessment fee amounting to Rs. 29,733,799 was recorded and receivings and payments of both assessment and business tax income were recorded in that account and due to including business tax opening balance of Rs. 391,800 in the balance of the license fee account as at 31 December 2021, the balance of the assessment and business tax account was under-accounted by that amount and the license fee account was over-accounted by that amount.
- (f) Although the interest for a fixed deposit for the year under review was Rs. 139,985, the interest for the year under review was overstated by Rs. 53,863 due to accounting as Rs. 193,848.

It will be corrected by the final account of the year 2022.

Should be accounted correctly.

It will be corrected by the final account of the year 2022.

Should be accounted correctly.

(g) It was observed the difference of Rs. 11,229,693 due to recorded the operations, investments and financial activities in the cash flow statement prepared for the year under review as Rs. 56,474,166 and not increase in cash and cash and equivalents as Rs. 45,244,473. It will be corrected in next accounting year.

(h) According to the income and expenditure account of the main ledger, the operating surplus for the year under review was Rs. 33,423,228 and although credited to accumulated fund by journal entries, the surplus was indicated less by Rs. 219,352 as Rs. 33,203,875 in the comprehensive income statement. Action will be taken to avoid these errors.

Should be accounted correctly.

1.6.4 Unreconciled control Accounts or Reports

Audit Observation	Comments of the Council	Recommendation
A difference of Rs. 10,580,340 was observed between the balance of the accounts as at 31 December 2021 and the balance according to the sub documents of 06 accounts subjects stated in the financial statements.	This difference will be withdrawn.	The difference in the related balances should be reconciled corrected the accounts.

1.7 Non-compliances

Non- compliance with Laws, Rules, Regulations and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are given below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the council	Recommendation
Local government Commissioner's LGD/09/2019(I) August 2020.	government Circular dated 24 August 2020. Although the limits should have been approved in the advance B account of provincial government officers as indicated in form LG 21/2, the board had not approved the advance account limits and the advance B account had not been submitted with the financial statements.	This mistake will be corrected in next accounting period.	Advance limits should be approved and an advance B account should be prepared.

2. Financial Review

2.1 Financial Results

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2021 was Rs. 33,203,875 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 19,210,419.

2.2 Revenue Administration

2.2.1 Performance of the Revenue Collection

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Assessments and Taxes -----		
Out of the chargeable outstanding assessment value, the arrears of assessment to be collected for 46 assessment units that exceeded Rs. 50,000 was Rs. 4,006,408 and out of that, only Rs. 62,036 had been charged from one unit as at 22 April 2022.	No answers were given.	Arrangements should be made to recover the arrears of revenue.
(b) Rentals -----		
(i) No agreement was made for 06 shops out of 35 public market shops owned by the council and the arrears of rent to be charged from those shops was Rs. 712,000 as at 30 May 2022. Although more than 30 years have passed since the validity period of the agreements signed for 09 shops, new agreements have not been entered and the	Arrangements will be made to enter into a contract in future.	Arrangements should be made to enter into valid agreements.

arrears of rent to be charged from those shops as at 31 December 2021 was Rs. 638,950. There was not mentioned the ended date of the agreement in the agreement signed for shop No. 15/1/2 and the arrears of rent for this shop which the agreement was incomplete on 30 May 2021 was Rs. 27,500.

- (ii) Public market shop No. 25/A I inform that obtaining a A new assessment shop was leased from the year new assessment will be should be done by 1982 and it was charged Rs. 75 submitted to the next every three years. as monthly rent since its General Assembly and will beginning. No valuation was be assessed by the given for this shop in current Valuation Department. valuation report and the audit was not revealed the reasons for not revising the rent since 40 years.
- (iii) Although the tax committee had As per the decision of the A government recommended on 30 June 2020 General Assembly, the valuation should be to rent a council building for lease has been taken using obtained and should be maintaining a maintaining a a temporary valuation and leased. post office at a temporary I inform that a valuation valuation of Rs. 2,000 until the will be done in future. valuation of government was obtained and submitted to the General Assembly on 10 July 2020, a decision of the General

Assembly was not submitted to the audit. The relevant building was leased for a period of 20 July 2020 to 19 July 2023 at a temporary valuation of Rs. 2,000 per month and a section was included in the agreement stating that the monthly rent would be revised once a year, but the rent was not revised accordingly. Also, obtaining a government valuation has not been done yet.

- (iv) It was observed that the total number of shops operating in the trade complex was 1457 during the physical inspection of Peliyagoda Manin Trade Complex owned by the Municipal Council on 02 March 2022 and the total number of shops identified by the Municipal Council was only 626. Out of that, the Municipal Council had collected license fee from only 496 shops in the year 2021.
- I inform that a report of the shops which are actively maintained and the license fee is collected.
- License fees should be collected from all the shops operating in the shopping complex.

- (v) Out of Rs. 1,916,000 billed rent in the year under review, only Rs. 697,000 had been collected in the year under review and the amount to be charged was Rs. 329,200 as at 31 May 2022. No answers were given. Arrangements should be made to collect the billed amount.

3. Operational Review

The following are the facts observed regarding the performance of the council's duties of regularizing and controlling the matters of public health, public utility services and public roads and the welfare, convenience and welfare of the people under section 4 of the Municipal Council Ordinance.

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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As stated under other matters in the report of the Environment and Health Committee held on 22 January, after reaching agreements with the approval of the General Assembly in the charging of garbage charges for business garbage, the officers responsible for recovering the charges for the year 2021 should be acted and decided to provide scales to weigh the garbage. Accordingly, the number of institutions to be charged garbage charges for the year 2021 was not properly identified through physical inspection. According to the document, 113 institutions were identified, out of	Charges for commercial waste were collected from these institutions with maximum efficiency and I will inform you that nearly 200 institutions have been identified yet and arrangements have been made to collect charges.	Garbage charges should be collected after identifying the institutions through physical inspection.

which only 60 institutions were contracted and scales were not provided to weigh and measure the garbage as per the committee decision.

3.2 Human Resource Management

Employee Loan

Audit Observation	Comments of the Management	Recommendation
<p>The total loan amounting to Rs. 1,750,864 was not recovered from the period of 1998 to 2012 as Rs. 257,104 from 08 officers who died and retired on 31 December 2021, Rs. 776,717 from 39 suspended officers and Rs. 717,053 from 06 officers who left from the service and these balances were not recovered.</p>	<p>Action will be taken to recover.</p>	<p>Action should be taken to recover the arrears balance.</p>

3.3 Waste Management

Audit Observation	Comments of the Council	Recommendation
<p>A machine had been acquired on rental basis for flattening the garbage in the Municipal Council garbage yard and the finance committee held on 23 June 2020 had given approval for this regardless of the quantity of waste</p>	<p>I inform that when the re-contracting process, agreement will be made included with regard to how to deal with meter malfunctions and</p>	<p>Action should be taken to enter into the agreement included with relevant conditions and waste management should be done under</p>

expected to be flatting, the number of machine hours spent on it etc. An amount of Rs. 2,844,800 was paid to the contracted institution for this machine based on machine hours in 2020 and 2021. While the meter of the waste flatting machine was not working, an amount of Rs. 122,150 was paid for 68.9 machine hours and there were no conditions in the agreement in this regard. Also, although spent only 18.7 machine hours to flat the garbage from 01 to 13 October, Rs. 16,275 overpaid for 14.6 hours as Rs. 49,000 was paid for 33.3 hours.

payment of Rs. 49,000 proper supervision. has been made as payment is made for the machine for a maximum of 04 hours per day.