

## **Wattala Mabola 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 Wattala Mabola 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 of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 Subsection 181 (1) of the Urban Councils Ordinance (Chapter 255) and provisions 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 Wattala Mabola 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 Governments.

#### **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 in relation to the financial statements.

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 Sri Lanka Public Sector Accounting Standard for Local Governments, 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 Council.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the 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 of the Council.

#### 1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 the Council's 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 Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the Council;
- Whether the Council has performed according to its powers, functions and duties; and

- Whether the resources of the 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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National Audit Act, No. 19 of 2018 includes 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 financial statements presented includes all the recommendations made by me in the previous year 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

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### 1.6.1 Accounting Policies

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Audit observation -----	Comments of the Council -----	Recommendation -----
The laptop computer currently in the custody of the Court had not been disclosed by significant accounting policies and other explanatory notes in the financial statements.	I will take action to rectify it in the future.	Disclosure should be made by the financial statements.

### 1.6.2 Noncompliance with Sri Lanka Public Sector Accounting Standard for Local Governments

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Noncompliance with Reference to the Relevant Standard -----	Comments of the Council -----	Recommendation -----
Action had not been taken to revalue and account 15 lands owned by the Council identified at the physical verification of goods according to Sri Lanka Public Sector Accounting Standard for Local Governments No. 18.7 and the letter of the Commissioner of Local Government bearing No. LGD/10A/4/න.ඊ/2019 dated 01 February 2021 and the land extent of 02	I inform you that action will be taken to rectify it in the future.	Action should be taken in compliance with the Sri Lanka Public Sector Accounting Standards for Local Governments and the Circulars of the Commissioner of Local Government.

lands revalued and accounted had been accounted 63.33 perches less than the extent that had been mentioned in the fixed asset register. The revaluation amount of the land, which had been understated had been Rs. 88,592,000.

### 1.6.3 Accounting Deficiencies

----- Audit observation -----	----- Comments of the Council -----	----- Recommendation -----
(a) Capital expenses of Rs.3,798,073 had been included in the recurrent expenses of Rs.5,052,550, which had been accounted by journal entries. The expenses had been overstated by that amount and assets or work in progress had been understated by that amount.	I inform that it will be rectified by the final account of the year 2022.	Accounting should be done accurately.
(b) The lawyer's fees of Rs.108,500, which had been set aside as creditors in the previous year, had been written off in the year under review. Since the creditor provision amounting to Rs.108,500, paid on 23 April 2021 for the years 2019 and 2020 had been written off it had been accounted as an expense in the year under review.	I would like to inform you that a rectification is not required.	Accounting should be done accurately.
(c) In the year 2021, the billing of waste disposal fees had been Rs.4,581,000 and the receipts of the year had been Rs.2,142,850. As a result, a sum of Rs. 2,438,150 had been over billed and the revenue of the year had been overstated by that amount.	I inform you that a committee has been appointed to remove the business places and update the computer system and to carry out future activities are being carried out.	Accounting should be done accurately.

#### 1.6.4 Unreconciled Control Accounts or Reports

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Audit observation	Comments of the Council	Recommendation
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There had been a difference of Rs.98,891,470 between the balance of the account as at 31 December 2021 in 06 accounting items stated in the financial statements and the balance according to the subsidiary registers.	I will rectify them in the future.	The differences in the respective balances should be reconciled and the accounts should be rectified.

#### 1.6.5 Accounts Receivable

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Audit observation	Comments of the Council	Recommendation
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Action had not been taken to recover a balance of Rs.241,564 in 08 dishonoured cheques, brought forward in the accounts for about 12 years under current assets.	I inform you that I will recover and rectify it in the future.	Action should be taken to recover.

## 2. Financial review

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### 2.1 Financial Results

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According to the financial statements presented, the surplus of the Council for the year ended 31 December 2021 had been Rs. 48,496,019, and corresponding surplus of the previous year had been Rs.102,519,308.

#### 2.2.1 Performance in the Collection of Revenue

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Audit observation	Comments of the Management	Recommendation
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(a) The amount collected as at 31 December 2021, out of the outstanding assessment tax balance of Rs.47,176,842 as at 01 January 2021, had been Rs.9,205,267. Therefore, the percentage of collection had been 20 percent.	I would like to inform you that related actions are being taken to recover the arrears.	Arrangements should be made to recover the arrears of revenue.

- (b) The amount collected as at 31 December 2021, out of the outstanding industrial and business tax balance amounting to Rs.302,200 as at 01 January 2021 had been Rs.41,750. Therefore, the percentage of collection had been only 1 percent.
- I would like to inform that income promotion programmes had to be limited due to the pandemic situation prevailed in the year 2021.
- Arrangements should be made to recover the arrears of revenue.

## 2.2.2 Rents

----- <b>Audit observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) It was observed that the contractual period of fifteen (15) shops in Handala trade complex had expired and the arrears of rent to be recovered on 31 December 2021 had been Rs. 813,968. Since it had not been possible to file cases on prescription due to not entering in to contracts and not renewing contracts after the termination of contracts by 31 December 2020, it had not been possible to legally collect the rent arrears of Rs. 1,639,053, recoverable as at 31 December 2021 from 07 lessees, who had obtained meat shops from the Handala trade complex.	It is informed that due to non-availability of a valid agreement, it was problematic to identify the officials who dealt with it and it has been forwarded to obtain instructions of the Commissioner of Local Government and it has further been referred to the Legal Officer of the Chief Secretary.	Should enter in to a legally valid agreement.
(b) Since the newspaper advertisement published for tendering and leasing a building owned by the Council had not been correct, a sum of Rs. 50,544 had been spent to republish the advertisement. The amount incurred for republishing the advertisement had not been collected from the officials responsible for it.	I would like to inform that the tender amount had been recorded as the previous amount and therefore, the period had been recorded as 10 years in his report due to the lapse of the Revenue Inspector and this notice has been corrected.	The additional cost incurred should be recovered from the person responsible for it.
(c) Two (02) shops bearing No. HM/41D and HM/41C in Handala trade complex had been leased to one person on 08 August 2008 as per his request without tendering and without entering in to a contract. The contract had not been signed until 28 February 2022 and the	I would like to mention that it has been informed to identify and report the officials, who had not taken further steps to enter into agreements after the termination of the agreements.	Action should be taken as per the Circular.

Revenue Inspector had informed that those shops could not be usable and had stopped billing for the shops from December 2019. The outstanding amounts as at 31 December 2021 had been Rs.234,878 and Rs.465,112 respectively. Although it had been requested by the letter of the Assistant Commissioner of Local Government of Gampaha District bearing No. LGD/GM/1/7/General/U-07/2020 dated 18 June 2020 to identify and report the officials, who had not carried out further action since there had been no legal capacity to collect arrears as contracts had not been signed after the termination of contracts, the officers had not been identified.

### 2.2.3 Other Revenue

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Audit observation -----	Comments of the Management -----	Recommendation -----
The arrears balance of the garbage disposal fee, which had been indicated to be charged on 31 December 2021 for the garbage disposal in the shops had been Rs. 11,810,498. The Council had not taken action to find out the existence of such outstanding balances, without stopping the garbage disposal since the garbage charges are charges levied for providing services.	Garbage collection from non-paying establishments has been suspended. However, outstanding balances are indicated on monthly billing due to not removing these non-paying establishments from the computer system. I would like to inform that the system is being updated.	Action should be taken to recover arrears and to correct accounts.

### 3. Operational review

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The matters observed regarding the accomplishment of the functions that should be discharged by the Council under Section 4 of the Urban Councils Ordinance, charged with 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 and all amenities of the Municipality, are mentioned below.

### 3.1 Management Inefficiencies

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Audit observation -----	Comments of the Management -----	Recommendation -----
(a) The amount agreed to be paid by the insurance company in connection with the accident occurred on 07 January 2021 had been Rs. 44,200. It had been recommended by the inspection committee to recover the difference of Rs. 24,350, generated from the amount of Rs. 68,550 to be paid to the garage, in the ratio of 75 percent from the driver and 25 percent from the technical officer. However, the Council had suspended that recommendation and decided to pay the amount from the Council Fund at the meeting of the Council held on 18 March 2022.	It has been approved to provide the remaining amount from the Council Fund, under 5.1.8 of the monthly council meeting on 18 March 2022 and the Commissioner of Local Government (W.P.) has been informed to provide instructions for further activities dated 19 April 2022.	Action should be taken in accordance with the instructions of the Commissioner of Local Government.

### 3.2 Operational Inefficiencies

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Audit observation -----	Comments of the Management -----	Recommendation -----
Even though action should be taken to purchase the land after obtaining the undisturbed possession of the land, when purchasing the land in extent of 01 acre and 29.50 perches at Rs. 9,475,000 on 22 August 2013, it had been purchased with 03 houses with illegal settlements and with a wall had been built around the land. As the electricity had been obtained for the 03 houses, the electricity had been obtained with the permission of the Council and it was decided as per the decision of the Council taken on 23 February 2021 to give the houses to the same residents without removing those unauthorized residents in a way that the Municipal Council could collect rents. In the year 2021, provision	I would like to inform that Commissioner of Local Government (W.P.) has given instructions to the Assistant Commissioner of Local Government (Gampaha) to examine and to inform the Council about the action to be taken.	Action should be taken in relation to the protection of assets and the undisturbed possession of the Council should be confirmed.



had been allocated from the budget of the year 2022 for the construction of a vehicle yard. However, this construction could not be made as it had been included in the annual budget without solving the issue of the location of these 03 houses.

### 3.3 Human Resource Management

#### Employee Loans

Audit observation	Comments of the Management	Recommendation
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<p>A total of Rs.1,402,241 comprised of Rs.766,987 from 05 officers who died and retired by 31 December 2021 and Rs.251,466 from 96 officers, who had vacated the posts and Rs.383,788 from 04 officers, who had transferred from the Council, had not been recovered and action had not been taken to recover those balances.</p>	<p>It is informed that action will be taken to recover.</p>	<p>Action should be taken to recover.</p>