

Ambalangoda Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ambalangoda Urban Council including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Income and Expenditure Accounts, Statement of changes in net assets, 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 Council Ordinance (Chapter 255) and the 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 Ambalangoda Urban Council as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

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 Practices 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 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 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) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Council	Recommendation
(a)	Work Creditors had been overstated by an amount of Rs. 875,000.	Will be rectified in the future.	Should be accounted correctly.
(b)	Hardware devices and network equipment amounting to Rs. 1,677,267 received as donations were not capitalized during the year under review.	- do -	- do -
(c)	The Furniture and fitting purchased during the year under review were undercapitalized by an amount of Rs. 106,680.	- do -	- do -
(d)	The adjustments were not made for the shop rent income received in advance for the previous year and the year under reviewed. Therefore, the shop rent income for the year under review had been understated by an amount of Rs. 192,060.	- do -	- do -
(e)	The income and the fixed deposit amount of the year under review were understated by an amount of Rs. 400,616 as receivable fixed deposit interest for the preceding year was debited to the income of the year under review.	Will be rectified in the future.	Should be accounted correctly.

- (f) The billing of Stamp duties of the year under review had been understated by an amount of Rs.441,000. - do - - do -

1.6.2 Non reconciled control account or records

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs. 5,846,202 between the balances related to 10 accounting items shown in the financial statements as at 31 December of the year under review and the balances shown in the relevant utility registers and sub registers.	Action will be taken to rectify after identifying the difference.	Accounts should be rectified after identifying the differences.

1.6.3 Lack of Documentary evidence for Audit

Subject	Comment of the Council	Recommendation
Due to non-submission of the necessary detailed schedules for 11 accounting items aggregating to Rs. 24,857,312 could not be satisfactorily inspect during the audit.	Action will be taken to provide schedules in the future.	Evidence confirming the balances should be presented.

1.7 Non-compliances

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

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 371	Ad hoc advances of Rs. 290,564 taken were not settled.	Will be rectified in the future.	Action should be taken according to the financial Regulations.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 19,158,420 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 35,006,166 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	24,050,000	23,950,355	24,696,404	35,222,523	24,090,000	20,268,799	15,642,125	35,968,572
Rent	23,601,250	17,835,503	18,140,843	11,953,730	21,329,000	13,971,870	14,621,797	12,259,070
License Fees	604,000	375,494	431,844	225,909	1,273,000	616,950	590,600	282,259
Other revenue	22,995,000	21,229,464	20,205,294	3,384,107	22,068,957	15,980,173	15,770,286	2,359,937
Total	71,250,250	63,390,816	63,474,385	50,786,269	68,760,957	50,837,792	46,624,808	50,869,838

2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the Sabha.

	Audit Observation	Comment of the Council	Recommendation
(a)	The Arrears of rent balance as at 01 January of the year under review amounted to Rs. 12,259,070 and at the end of the year it was Rs. 11,953,730.	Action will be taken to recover in the future.	Arrears of income should be recovered as soon as possible.
(b)	There was an outstanding balance from 43 units of more than Rs. 100,000 amounting to Rs. 7,999,708 in the outstanding assessment tax balance.	- do -	- do -
(c)	The contract period of 23 shops in Ambalangoda Bus Stand Shopping Complex had expired in 2018 and 2020, and they had not been updated.	Agreements will be updated.	Action should be taken according to the Circular.
(d)	The Stamp fees amounting to Rs. 63,750,924 was receivable from the Chief Secretary of the Provincial Council as at 31 December of the year under review.	The provision has been made, as schedules have not been received for the year 2022.	Arrears of income should be recovered as soon as possible.

3. Operational Review

3.1 Solid Waste Management

Audit Observation

Although a garbage separation center and two buildings were built at a cost of Rs. 353,948 and Rs. 429,350 under the allocation of the Provincial council in the year 2017, degradable and non-degradable garbage between 18 and 20 tons was discarded per day to 03 acre land called Halvatura belonging to Madampavila sanctuary. The garbage was covered with earth once a year, and the Council did not have a formal program for garbage management.

Comment of the Council

The proposals have been made to initiate a management project.

Recommendation

A formal program should be prepared for waste management.

3.2 Management Inefficiencies

Audit Observation

License fees were not charged for 194 three-wheelers registered for the year 2022.

Comment of the Council

It was presented to the Honorable Governor to write off.

Recommendation

Action should be taken to recover revenue as soon as possible.

3.3 Assets Management

Audit Observation

10 computers and 11 keyboards in the e-library of the Council were in inactive condition, and action had not been taken by the council to repair them and use them for providing library services, and the e-library was not in working condition.

Comment of the Council

Action will be taken to provide necessary facilities for readers to search for information on the Internet.

Recommendation

The Digital Library should be activated.

3.4 Human Resources Management

Audit Observation

There was a receivable loan balance amounting to Rs. 167,942 as at 31 December from 66 employees who abandoned the service, interdicted and non-permanent employees.

Comment of the Council

Details of the employees cannot be found.

Recommendation

Action should be taken to recover.

4. Accountability and Good Governance

Action Plan

Audit Observation

The budget for the year 2022 had not been approved by the Council. As a result, 172 projects that should have been completed with a allocated of Rs. 13,000,000 for public proposals included in the annual budget were not fulfilled during the year under review.

Comment of the Council

The unfulfilled development proposals mentioned in the budget proposals for the year 2022 have been included in the budget proposals for the year 2023.

Recommendation

Annual budgetary proposals should be fulfilled.