

Chilaw Urban Council – 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chilaw Urban Council including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, Statement of Finance Operation, Statement of Net Assets Changes, Cash Flow Statement 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 and with the provisions of the National Audit Act No. 19 of 2018 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 Chilaw Urban Council as at 31 December 2022, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 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 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 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 financial statements presented includes all the recommendations made by me in the previous year of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit observation on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Worth of Rs.2,802,186 received stamp duty which had exceeded the estimate related to the previous year had not been adjusted to the accounts.	That adjustments will be made from the final account in 2023.	Corrections should be made through the journal entries.
(b) The pension amount of Rs.64,755 paid in the year under review which was credited in the previous year had not been adjusted to the pension contribution account.	-Do-	-Do-
(c) The payable amount to contractor for the project of construction of a restroom at the office premises of Rs.670,250 had been over-accounted.	Action will be taken to prevent such mistakes in the future.	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.22,287,365 in total value between the financial statements and schedules of 05 accounting heads.	That the differences will be corrected during the preparation of the final accounts in 2023.	Documents should be corrected and action should be taken to account for the correct balance.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
07 account balances worth Rs.385,087,579 as on 31 st December of the year under review could not be satisfactorily verified in the audit due to not presented of updated fixed assets registers, pre-payment registers, detailed schedules.	Will be corrected from the final account in 2023.	The updated fixed assets registers and schedules should be presented.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Municipal Ordinance Section 170 Council	The provisions of the Act had not been followed relating to the arrears of assessment tax and arrears of rent for more than 01 year.	Warrants will be issued and further action will be taken.	The arrears should be recovered immediately.
(b) Local Government Pension Orders in 1975 and the amendment published in Government Gazette No. 320/8 dated 07 th June 1978 Section 36 of the Local Government Pension Orders.	Monthly pension contributions had not been paid properly.	That the outstanding amount will be paid in the future.	The monthly pension contributions should be paid properly.

1.7.2 Non-compliance with Tax Requirements

Audit Observation	Comments of the Council	Recommendation
Obtaining the advises of the Inland Revenue Department and the necessary settlements had not been made regarding the debit balance of Rs.2,882,489 in the value added tax account.	Will proceed according to the answers provided by that institution of Inland Revenue Department In discussion with	The necessary settlement should be done after obtaining the advises from the Inland revenue Department.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31 December 2022 amounted to Rs.10,554,339 as compared with the excess of revenue over recurrent expenditure amounted to Rs.30,322,519 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 Chairman the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sources	2022				2021			
	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 st December	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 st December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
	000'	000'	000'	000'	000'	000'	000'	000'
Rates income	23,688	23,479	12,861	51,260	22,453	23,162	17,628	50,868
Rent income	45,631	41,638	35,836	47,957	45,727	35,041	34,105	38,102
License Fees	1,406	15,441	15,441	-	1,525	2,647	2,647	-
Other Revenue	<u>3,454</u>	<u>10,126</u>	<u>5,710</u>	-	<u>24,000</u>	<u>23,788</u>	<u>23,593</u>	<u>93,980</u>
Total	<u>74,179</u>	<u>90,684</u>	<u>69,848</u>	<u>99,217</u>	<u>93,705</u>	<u>84,638</u>	<u>77,973</u>	<u>182,950</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
<p>(a) Assessment Tax</p> <p>The assessment of Rs.51,259,586 should have been received from the assessment receivable properties.</p>	That will be recovered the arrears of assessment through conducting the mobile service programs.	The outstanding assessment should be recovered immediately.
<p>(b) Rent</p> <p>The outstanding stall rent and rent income was Rs.47,957,115 and the action had not been taken to recover this outstanding income.</p>	That the arrears will be collected or written off as per the instructions of the Local Government Commissioner.	The outstanding stall rent should be recovered immediately.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) The fish market, vegetable market, night market, parking lot and toilet revenue had been collected by deploying the council employees and it was observed that have expenses over the revenue after deducting the salary and electricity expenses from the collected revenue.</p>	That will be collected the revenue after calling the tenders.	Actions should be taken to increase the revenue.
<p>(b) Shirley Koraya Hall was given to Chilaw Hospital in 2017 but no agreement was made in this regard. Although the Municipal Council had calculated Rs.3,434,000 as rent money and the money had not been collected.</p>	That the hospital director has been informed by letters asking him to return the buildings given to the hospital and to pay the arrears.	The action should be taken to collect the rent immediately.

- (c) A fire truck owned by the council met with an accident and incurred a loss of Rs.780,000 in the year 2016. The Commissioner of Local Government made recommendations to conduct an investigation and recover the losses in this regard and but those recommendations were not implemented.
- As they are going to send a letter asking for instructions on how to recover the surcharge of those officers due to that the amount has not been recovered.
- The recommendation of the commissioner of Local Government should be implemented immediately.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation

An expenditure of Rs.2,842,210 had been incurred for the purchase of 21 air conditioners in the year 2018. That 07 air conditioners worth Rs.692,337 remained idle due to lack of sufficient electricity power capacity to operate the installed air conditioners and the warranty period of these unused machines had also exceeded.

Comments of the Council

That a letter has been sent to the Local Government Commissioner's office to asking for instructions regarding the sale of these air conditioners and the installation of solar panels for the supplying of electricity to the office.

Recommendation

Appropriate action should be taken.

3.3 Assets Management

Audit Observation

- (a) A special survey board had physically inspected the vehicles on 28th September 2021 and according to the survey report submitted which had been instructed to be disposed of 05 assets belonging to the council but had not been disposed of.

Comments of the Council

That will be disposed of after got approval for the assessment report forwarded to the Commissioner of Local Government.

Recommendation

Should be followed the survey reports.

- (b) There were 39 lands, playgrounds and cemetery lands used by the council within the jurisdiction of the council and the ownership of those lands had not been taken over.

That activities related to land acquisition are being carried out.

The action should be taken to take over the ownership of the land immediately.

3.4 Human Resource Management

Audit Observation

- (a) There was a shortage of 118 employees and a surplus of 14 employees.

Comments of the Council

That requests are made from time to time to complete the vacancies.

Recommendation

Action should be taken to complete the relevant vacancies in a formal manner.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Council	Recommendation
Although an internal audit plan had been prepared for the year 2022, an internal audit had not been conducted in such a way as to identify internal control weaknesses in the areas of asset management including buildings, revenue generation, public service provision, stores management and street light maintenance etc.	That the audit will be done as far as possible in 2023 which areas not subject to internal audit.	Internal audit should be done covering all sectors.

4.2 Budget Control

Audit Observation	Comments of the Council	Recommendation
(a) Due to non-preparation of realistic and accurate estimates, Rs.8,233,600 had been provided for 81 expenditure items had been remained completely.	As the Municipal Council prepares a project budget that the provisions have been allocated on the expenditure heads for each project.	Action should be taken to achieve the budgeted tasks.
(b) Savings remained from 50 percent to 98 percent ranged of the allocated amount of Rs.14,269,400 for 43 expenditure heads in the year under reviewed.	That the expenses have to be control according to the national budget circular and economic crisis.	Action should be taken to achieve the budgeted tasks.

4.3 Sustainable Developments goals

Audit Observation	Comments of the Council	Recommendation
13 activities identified to achieve 15 sustainability goals had not been fully completed and the progress of 19 activities ranged from 0.06 percent to 95.06 percent.	That the expenses have to be control according to the national budget circular and economic crisis.	Actions should be taken to achieve sustainable development goals and targets.