

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thalawakele Lindula Urban Council for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, 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 Sub-section 181 (1) of the 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 Thalawakele Lindula Urban Council as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on 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 this 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 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 Pradeshiya Sabha
- 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- a) Financial statements of the Urban Council are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- b) The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented, except for the observation given in Paragraph 1.6.2 (a) of this report.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Policies

Audit Observation	Comment of the Council	Recommendation
Information on 13 cases filed by the Council had not been disclosed with the account.	Information will be made available in due course, and information on 06 cases is presented with this reply.	Disclosures should be made on cases in the financial statements.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
a) The sum of Rs. 742,107, being the value of dishonored cheques relating to 02 bank accounts of the Council as at 31 December 2019, had been debited to the dishonored cheques account without revising the fund account, but no corrective measures had been taken thereon even in the year under review.	The said accounting deficiency will be corrected.	Corrective measures should be taken on accounts.
b) An unaccounted balance of stamp fees amounting to Rs. 952,500 relating to a preceding year, had not been credited to the accumulated fund in the year under review; instead, the amount had been credited to the stamp fee account.	Will be corrected in preparing the financial statements of the ensuing year.	Account balances should be corrected.
c) Stamp fees amounting to Rs. 5,204,100 received in excess of the revenue balance receivable as at 31 December of the preceding year, and the rest house lease rents received with respect to the preceding year totalling Rs. 1,259,000, had not been adjusted to the accumulated fund.	Those accounting deficiencies will be corrected when preparing the financial statements for the ensuing years.	The correct value should be shown in the financial statements.
d) Cost of 101 units of disposed assets and 19 goods auctioned in the year under review, had not been identified and eliminated from accounts. The value of	Will be corrected in preparing financial statements for the ensuing years.	The value should be eliminated from accounts.

the stock of organic fertilizer in the garbage disposal site and 1714 library books with unknown value, had not been identified and brought to accounts.

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| e) | A sum of Rs. 119,000 directly credited to the bank in the year under review, had not been identified and accounted for. | Corrective measures will be taken in due course. | Credits made directly should be accounted for. |
| f) | The difference between the receipts and court fine income estimated and accounted for after considering as being receivable amounting to Rs. 4,998,832, had not been adjusted to the accumulated fund but continuously shown in the accounts as a receivable balance. | Will be corrected in preparing financial statements for the ensuing years. | Account balances should be shown correctly. |
| g) | Consumables amounting to Rs. 1,293,013 and Rs. 2,580,980 had been included in the balances of machines & machinery and furniture & fittings respectively. As a water bowser worth Rs. 98,700 not in possession of the Council, had been shown in the financial statements, the value of fixed assets had been overstated by Rs. 3,972,693. | Will be corrected in preparing financial statements for the year 2023. | Correct value should be shown in the financial statements. |
| h) | The values of 14 items of kitchen equipment worth Rs. 240,700, and 45 other items such as laptops, printers, and scanners received as donations, had not been identified and accounted for. | The relevant information will be obtained correctly, and brought to accounts. | Correct value should be shown in the financial statements. |
| i) | Audit fees totalling Rs. 437,036 paid in respect of the 02 preceding years, had been brought to accounts as an expenditure of the year under review. | The sum of Rs. 437,036 pointed out in this query, had been settled in the year 2022. | Correct value should be shown in the financial statements. |

1.6.3 Unreconciled Control Accounts or Reports

Audit Observation	Comment of the Council	Recommendation
The comparison of 07 account balances shown in the financial statements with initial book balances, revealed an unreconciled sum of Rs. 5,064,536.	Balances will be correctly reconciled and brought to accounts.	Account balances should be corrected.

1.6.4 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation
As schedules and age analyses had not been presented as at 31 December of the year under review, 13 account balances valued at Rs. 6,988,777 could not be satisfactorily examined in audit.	Corrective measures are being taken at present.	Schedules should be prepared.

1.7 Non-compliances

Non-compliances with Laws, Rules, and Regulations, Instances of non-compliances with Laws, Rules, and Regulations, are as follows.

Reference to Laws, Rules, and Regulations	Non-compliance	Comment of the Council	Recommendation
a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) Financial Regulation 371 (b).	Advances totalling Rs. 403,000 given in 05 instances had remained unsettled over periods ranging from 03 months to 02 years.	Such deficiencies will be corrected in due course.	Action should be taken in terms of Financial Regulations.
(ii) Financial Regulation 189 and 486.	Action had not been taken in terms of Financial Regulations on 08 dishonored cheques.	Such deficiencies will be corrected in due course.	Action should be taken in terms of Financial Regulations.
(iii) Financial Regulation 571 (3).	Fifteen general deposit balances valued at Rs. 374,734 and lapsed as at 31 December of the year under review, had not been disposed.	Such deficiencies will be corrected in due course.	- Do -
b) Circular of the Commissioner of Local Authorities.			
Circular No. 1988/22 dated 17 May 1988.	Properties should be assessed at least once per 05 years for rates, but rates had been recovered based on an assessment done in the year 2011.	Assessment will be done correctly thus recovering rates.	Action should be taken in terms of provisions of the Circular.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure for the year ended as at 31 December 2022, amounted to Rs. 3,345,147 as compared to the corresponding revenue for the preceding year in excess of the recurrent expenditure amounting to Rs. 5,578,700.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

According to the information made available by the Chairman, particulars on the estimated revenue, billed revenue, collected revenue, and outstanding revenue relating to the year under review and the preceding year, are given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .
(i) Rates and Taxes	6,780,000	6,724,918	6,148,583	3,881,965	6,570,770	7,049,655	6,551,121	3,305,630
(ii) Stall Rent	10,045,040	11,805,249	11,338,817	6,034,029	7,503,540	9,843,300	8,419,321	5,567,597
(iii) License Fees	895,000	594,000	594,000	-	2,005,500	723,000	946,250	-
(iv) Other Income	59,801,720	7,500,000	8,597,808	5,493,232	60,026,540	-	43,517,272	6,591,040
	<u>77,521,760</u>	<u>26,624,167</u>	<u>26,679,208</u>	<u>15,409,226</u>	<u>76,106,350</u>	<u>17,615,955</u>	<u>59,433,964</u>	<u>15,464,267</u>

2.2.2 Performance in Collecting Revenue

Observations on performance of the Council in collecting revenue are given below.

	Audit Observation	Comment of the Council	Recommendation
a)	Rates and Taxes		
	Outstanding rates totalling Rs. 2,121,128 relating to the period 2010-2017, had not been recovered during the year under review. This deficit had grown to Rs. 4,679,130 by 31 December of the year under review.	Action is being taken to confiscate properties and conduct mobile awareness programmes for recovery of outstanding rates.	Outstanding revenue should be recovered.

- b) Rents
- (i) There existed a balance of stall rents amounting to Rs. 100,396 due from 03 stalls at the public market since 2016 and 2017. That deficit had grown to Rs. 617,885 by the end of the year under review.
- A new lessee will be selected through procurement process, and action will be taken to give the stalls on lease.
- Outstanding lease rents should be recovered, and action should be taken to give the stalls on lease.
- (ii) A sum of Rs. 192,600 being the house rent continued to exist since 2013 from an officer, had not been recovered.
- The Public Health Inspector has been informed in writing for recovery of the outstanding lease rent.
- Action should be taken to recover the outstanding revenue.
- c) Court fines and stamp fees
- The court fines and stamp fees receivable from the Chief Secretary of the Provincial Council and the other authorities amounted to Rs. 4,998,832 and Rs. 494,400 respectively as at 31 December of the year under review.
- Letters have been sent to the relevant institutions.
- Action should be taken to collect revenue.

3. Operating Review

3.1 Execution of Duties Entrusted by the Act

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 04 of the Urban Councils 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.

Audit Observation	Comment of the Council	Recommendation
Neither construction of public drains, nor repairing of drainages or public bathing places had been done in the year under review in terms of Paragraph 104 and 127 (b) of the Urban Councils Ordinance.	Works could not be executed using the fund of the Council.	Provisions of the Ordinance should be followed.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
a) Necessary action had not been taken on the cheque valued at Rs. 100,000 that had been dishonored after being received on 10 May 2021 for lease rent of the rest house.	Corrective measures will be taken in due course.	Action should be taken to collect revenue.

- b) The total of capital debtors amounting to Rs.11,783,220 and capital creditors amounting to Rs. 12,179,252 relating to the period 2003-2021, had not been settled. Not commented. Action should be taken for settlement.

3.3 Transactions of Contentious Nature

Audit Observation	Comment of the Council	Recommendation
It was observed that there were 219 illegal constructions within the limit of the Urban Council. A permanent building with an area of over 3000 square feet had illegally been built at the land where the rest house of the Urban Council had been established. Having built an illegal building at the premises of the Dharmalingum cultural center, electricity and telephone facilities had also been obtained.	Illegal constructions have been investigated, and action is taken for demolition.	Illegal constructions should be demolished.

3.4 Idle and Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Council	Recommendation
a) A number of 327 units of machines, furniture and office equipment valued at Rs. 17,280,286 and 07 vehicles as at the end of the year under review, remained underutilized and idle over a period of 02-10 years.	A Board of Survey has been appointed, and action will be taken after receiving their recommendations.	The machine should either be repaired and used or disposed of.
b) The motor of the Huller machine kept at the solid waste management center had been removed, and the machine was decaying.	The machine will be auctioned in due course., thus earning an income for the Council.	An investigation should be conducted on the removal of motor, and utilization of the machine should be ensured.

3.5 Management of Assets

Audit Observation	Comment of the Council	Recommendation
Action had not been taken on the shortage of 217 items of stock in the warehouse valued at Rs. 54,635 in the year under review.	Will be surveyed again, and corrective measures will be taken on shortages and excesses.	Necessary action should be taken on shortages.

3.6 Management of Procurements

Audit Observation	Comment of the Council	Recommendation
a) Without following the tender procedure, ground floor of the Seva Piyasa building, Dewsiripura had been given on lease to maintain a private preschool and the preschool in Thalwakele had been given on lease for maintaining a gymnasium to external parties for periods of 03 and 06 years respectively.	Given on lease under the decision of the general assembly.	Should be given on lease through tender procedure as per the Rules.
b) A bidder had been selected through tender procedure to give the rest house of the Council on lease from 01 January to 31 December of the year under review. Later, the lease period had been extended for 10 years and an agreement had been entered into with the lessee.	An agreement had been entered into for 10 years based on personal preference of the former Chairman.	Activities should be formalized.

3.7 Contract Administration

Audit Observation	Comment of the Council	Recommendation
An agreement had been entered into with the Ekamuthu Samurdhi Association, Thalawekele on 07 March 2022 to construct the drain in Gunanandapura under an estimated value of Rs. 956,750. The work should have been completed before 08 May 2022, but it had not been done so even by the end of the year under review. Although an advance of Rs. 191,350 had been paid on 21 March 2022, that advance had not been settled even by the end of the year under review. As those works had not been executed, water flowing through sloppy areas had caused threats to the safety of houses nearby.	It has been informed that the advance of Rs. 191,350. 00 given to execute the works, be returned to the Council.	Constructions should be done as per standards. Advances should be settled.

3.8 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
a) A total loan balance of Rs. 396,478 due from officers retired, or transferred and 03 health laborers, remained non-recovered over 01-10 years.	Action will be taken for recovery of loan balances.	Letters of retirement should be corrected, and due closing balances should be recovered.
b) Due to incomplete pension files pertaining to 03 retired laborers, they had been deprived of pensions for 10 years.	Action will be taken for recovery of loan balances.	Letters of retirement should be corrected, and due closing balances should be recovered.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Council	Recommendation
a) An annual Action Plan had not been prepared for the year under review	The Action Plan is being prepared at present.	The annual Action Plan should be prepared.
b) An annual performance report or a control report had not been prepared for the year under review.	The said reports are being prepared.	Action should be taken in accordance with provisions of the Act.

4.2 Budgetary Control

Audit Observation	Comment of the Council	Recommendation
Comparison of revenue and expenditure budgeted for the year under review, with the actuals revealed variations ranging between 16-100 per cent and 07-10 per cent with respect to 06 Items of Revenue and 07 Items of Expenditure respectively. As such, the budget had not been made use of as an effective instrument of control.	Action will be taken to prepare a realistic budget for the ensuing year.	Budget should be prepared attentively by properly identifying the requirements.

4.3 Environmental Issues

Audit Observation	Comment of the Council	Recommendation
Although 01 tones of waste had been collected in the division, such waste had been disposed of at a location near the crematorium without being segregated.	Will be corrected in due course.	Should be considered to produce organic fertilizer.

4.4 Sustainable Development Goals

Audit Observation	Comment of the Council	Recommendation
Sustainable development targets had not been set for the year under review in terms of Sustainable Development Act, No. 19 of 2017.	Sustainable development targets are being set for the year under review	Action should be taken in terms of provisions of the Act.