

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Beruwala Urban Council including the financial statements for the year ended 31 December 2022 comprising the Statement of Assets and Liabilities as at 31 December 2022, Comprehensive Income Statement, statement of changing Equity. 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 Beruwala Urban Council as at 31 December 2022, 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 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 Principles, 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) 05 projects total value of Rs. 5,666,640 which had been constructed by the Sabha fund during the year under review, had not accounted as assets.	Will be corrected in the final account of the year 2023.	All assets should be accounted.
(b) Although Rs.19,201,200 has been debited to the butcher shop rent account receivable by the journal entry No. 39, the ledger account shows Rs.13,964,570. that is, Rs. 5,236,630 had been understated.	-do-	Should be properly accounted.
(c) The Butcher Rent receivable amounting to Rs.2,619,100 had been offset from tender deposits by the Journal entry 65,however it was not reconciled in the ledger accounts.	-do-	-do-
(d) The inventory of Ayurvedic stores as at 31 December 2022, amounting to Rs.133,316 was unaccounted.	-do-	-do-
(e) An amount of Rs.141,510 receivable for 122 ½ days no pay leave from 27 employees was not accounted as receivables.	-do-	-do-

1.6.2 Non reconciled Control Accounts or report

Audit Observation	Comment of the Council	Recommendation
(a) There was a difference of Rs.2,190,160 between the balances shown in the financial statements of 04 accounting items and the balances shown in their related schedules.	Will be corrected in the final account of the year 2023.	Should be properly accounted.
(b) There was a difference of Rs.1,171,700 between the trial balances of 03 accounting items and the ledger account balances.	-do-	-do-

1.6.3 Suspense Accounts

Audit Observation	Comment of the Council	Recommendation
(a) The outstanding credit balance of the suspense account was Rs.205,995 as at 31 December 2022.	The balance of this suspense account will be corrected in the year 2023.	Financial statements should be prepared accurately.
(b) The salaries of Rs.190,083 paid in relation to the previous periods were debited as an expense of the year 2021 instead of debiting the creditor account, the suspense account was debited to correct the mistake without debiting the creditor by the Journal Entries 21.	It will be corrected through journal entries in the future,	Should be properly accounted.

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
Rule No. 325 of Gazette No. 2155/8 dated 24 December 2019	An officer nominated by the Assistant Commissioner of Local Government was not appointed for the Property Lease or Rent Tender Committee.	The property lease or rental tender committee has been appointed for the year 2023.	The action should be taken in accordance with the Local government rules.

2. Financial Review

2.1 Financial Result

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.12,368,388 as compared with excess of revenue over recurrent expenditure amounted to Rs.50,168,141 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 Council, 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 (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	15,208,192	15,208,192	16,305,655	16,305,655	15,219,000	15,219,000	15,804,162	18,471,762
(ii) Rent	26,009,270	26,009,270	26,537,046	1,140,784	18,548,000	23,067,504	21,741,322	6,767,674
(iii) License Fees	200,000	200,000	106,000	137,000	200,000	1,820,000	1,628,600	191,400
(iv) Other Revenue	2,233,200	2,233,200	2,824,824	966,971	1,895,000	275,000	473,000	(195,700)
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	43,650,662	43,650,662	45,773,525	18,550,410	35,862,000	40,381,504	39,647,084	25,235,136
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2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Council are given below

Audit Observation	Comment of the Council	Recommendation
(a) According to the assessment tax period analysis, the arrears less than one year is Rs.840,552, the arrears between 01 to 03 years is Rs.3,884,769, and the arrears between 03 to 05 years is Rs.3,012,967, the arrears between the 05 to 10 years was Rs.6,393,709 and over 10 years arrears was Rs.2,081,672.	A part of the assessment tax has been recovered.	The action should be taken to recover the arrears of income as soon as possible.
(b) The outstanding trade license fees were Rs.43,000 at the beginning of the year under review and any amount was not recovered during the year.	It was decided to write off from the monthly meeting held on 2022.10.22	The approval of the minister in charge should be obtained for write off.

3. Operational Review

3.1 Activities assigned by the Act

Audit Observation	Comment of the Council	Recommendation
(a) According to the Sections 11 and 12 of the Cow Slaughter Ordinance, the animals to be slaughtered were not submitted to the Public Health Inspector for inspection 24 hours before the slaughter and the transportation of beef was also done without the supervision of the Public Health Inspectors.	The comment had not been given.	Should be dealt according to Cow Slaughter Ordinance.

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| (b) | The person who gets the tender to sell meat at the public market beef butcher shop was also given licenses to sell beef in 09 other places in the council area. However the public market that got the tender, the butcher shop was closed and the rent was not paid properly. | At present, arrangements are being made to continue opening the public market beef butcher shop for trade without closing it. | The action should be taken to get the sources of income due to the Sabha. |
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3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) In the year under review, Rs.382,900 was spent to buy bodybuilding equipment for the bodybuilding centre located in Beruwala, Maradana, and the value of the equipment donated in the year 2020 was Rs.692,510. Due to the absence of a bodybuilding coach, the bodybuilding equipment and the building remained idle, and there was a risk of getting corrosion due to the direct exposure of the bodybuilding equipment to the sea wind.	This equipment's will be taken to a suitable place and action will be taken to establish bodybuilding centre.	Bodybuilding centre should be established and action should be taken to earn income.
(b) Beruwala Polkotuwa two-storied building, which is proposed to be developed from the year 2016 and belongs to the Council, had not been developed or repaired even as at the date of audit. Although the lower floor of the building was used only one day a week for the clinic work of the office of the Medical Officer of Health, the upper floor remained idle.	As there is a case in the District Court regarding this land, development work cannot be done.	Efforts should be made to get the legal proceedings done quickly and the resources of the Sabha should be used efficiently.
(c) The assets of Bandarawatta cemetery, public toilet, Massalgoda housing scheme's public well and Pitawala cemetery and 03 tractor-tailors, which were donated to the council, had not been assessed and accounted.	It will be checked and corrected in the final account of the year 2023	Assets of the Sabha should be registered.

3.3 Deficiencies of Contract Administration

Audit Observation	Comment of the Council	Recommendation
A material analysis was not prepared for a project to set up and install 62 road name plates and bills were submitted that 114 bags of cement were used for that. Also, although unskilled, semi-skilled and trained workers should be used to prepare 3.87 concrete cubes, Rs. 230,750 were paid by using 70 days of trained workers.	The issue orders have been issued from stores for all materials.	The material analysis and estimates should be prepared accurately while doing industries under direct labour.

4. Deficiencies of Contract Administration Environmental problems

Audit Observation	Comment of the Council	Recommendation
Due to the fact that no system was established to separate the biodegradable and non-biodegradable waste during garbage collection, both the biodegradable garbage and the non-biodegradable garbage such as polythene were disposed in the Wettimarajpura landfill in 100 perches. Also, it was observed that non-biodegradable garbage was being dumped on that land by the public and garbage had been dumped in other places in addition to that land, and the council had not taken any action against it.	The garbage is separated into biodegradable and non-biodegradable at present.	A formal mechanism should be followed regarding garbage.