

Ja-Ela Urban Council - 2022

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Ja-Ela 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 changes in net assets/ equity and 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 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, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Ja-Ela Urban Council as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Adverse Opinion

I expressed adverse opinion regarding financial statements 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 Sri Lanka Public Sector Accounting Standards 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 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 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 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

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 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

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
(a) In the accounting policies presented with the financial statements, it was stated that property, plant and equipment is depreciated according to the reducing balance method, but property, plant and equipment amounting to Rs.172,808,977 was not depreciated.	That this work will be completed before preparing 2023 final account and as per Accounting Standards 6.10 steps will be taken to carry out depreciation.	Assets should be depreciated according to standard.
(b) According to paragraph 18.7 of the standard, all assets should be audited and accounted for, but 235 plots of land, machinery, carts and furniture and fixtures owned by the council were not revalue.	The 235 plots of land owned by the council for widening the roads are very small amounts and even physical identification has become a difficult task at present. That actions will be taken to revalue the items of furniturer, equipment and fixtures before preparing 2023 final account.	All assets should be revalue and accounted for.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the council	Recommendation
(a) The capital expenditure related to the year under review and related industrial creditors amounting to Rs.29,467,017 were not accounted for.	That steps will be taken to prepare the accounts correctly in the future.	Arrangements should be made to prepare the accounts correctly.
(b) Amounting to Rs. 478,253 paid to store creditors during the year under review had not been debited to the store creditor ledger account.	That the steps will be taken to correct this deficiency by means of a journal entry in the preparation of the 2023 year-end accounts.	-do-
(c) Issue of goods amounting to Rs.2,279,640 from the general stores during the year under review was credited to the stores creditor account instead of being credited to the general stores control account.	That the correction will be made through a journal entry in the preparation of the 2023 final account.	-do-

(d)	Audit fees of Rs.827,314 payable for the year 2019 and 2020 were stated as expenses of the year under review and no allocation was made for the audit fees payable for the year under review.	That the audit fees related to the years 2019 and 2020 have been accounted as an expense in the year under review.	-do-
(e)	Though only the newspaper advertisement for the purchase of an elevator worth Rs.5,000,000 was published in the year under review, its value was capitalized as the work in progress under building works under property and equipment.	Based on the approval under 01 – 05 of the General Assembly, the relevant files have been forwarded to an evaluation committee and accordingly this amount has been allocated for the purchase of an elevator.	-do-
(f)	Though Rs. 865,000 for the purchase of salary preparation software in the year under review from the council's fund and Rs. 927,200 of the amount spent to purchase the human resource management software in the previous year were capitalized by Journal 36, was also accounted as an expense under the physical plans of the comprehensive income statement.	No answers provided.	-do-
(g)	Although the original value of Rs.2,995,000 spent on the human resource management software should have been capitalized, only Rs.927,200 was capitalized.	-do-	-do-
(h)	Instead of accounting the total amount of Rs.4,731,766 for the development of the Ja-Ela Urban Council's Stadium under capital grants and property, plant and equipment, only Rs.2,195,016 which was due at the end of the year under review, was accounted under capital grants and capital grants receivable. And Rs. 2,536,750 had been adjusted to income and expenditure.	That steps will be taken to correct these deficiencies in the preparation of future financial statements.	-do-
(i)	Income for the year was understated by Rs.10,700,046 due to accounting of Rs.2,520,600 for the actual billing of Rs.13,220,646 for Trade Space Rent 1.	That steps will be taken to correct this deficiency in the future year.	-do-
(j)	The income of the year under review is Rs.561,117 and the rent receivable as at 31 December of the year under review is	That this value will be removed from the documents and steps will be	-do-

Rs.2,627,234 overstated in the financial statements due to incorrect billing of rent for 5 shops in the new shopping mall from the year 2018 used by the council.	taken to actualize the account during the preparation of the 2023 account.	
(k) Stamp duty receivable of Rs.33,296,736 from the year 2018 to the year 2020 was not accounted as receivable.	Considering the general delay in receipt of stamp duty revenue, accounts are kept on receipt basis.	-do-
(l) Capital expenditure of Rs.4,402,318 for building construction and roads, culverts and bridges in the year under review was not accounted as non-current assets.	That steps will be taken to correct these deficiencies in the preparation of future accounts.	-do-

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the council	Recommendation
There was a difference of Rs.46,156,897 between the balances of 15 ledger accounts and the totals in the schedules submitted with the financial statements of the year under review.	That the correction will be made in the preparation of 2023 accounts.	The differences in the respective balances should be compared and the accounts corrected.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the council	Recommendation
Capital grants receivable amounting to Rs.13,061,119 could not be satisfactorily verified due to non-submission of balance confirmation letters.	No answers provided.	Arrangements should be made to submit the relevant schedule.

1.7 Non- Compliances

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

Instances of non-compliance with laws, rules, regulations and management decisions are mentioned below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) National Audit Act No. 19 of 2018 Section 38(2) of Chapter VII	A copy of the written review to be performed by the Chief Accounting Officer on financial control was not submitted to the Auditor General	That a written review of the changes made in the organization will be forwarded to the Auditor General in the future.	Action should be done in accordance with the referenced regulation.

(b) Financial Regulations

I	F.R. 110(1)	A damage and loss register had not been maintained by the Urban Council.	That the industry section of the council was instructed to prepare and maintain a damage and loss register.	Action should be done in accordance with the referenced regulation.
II	F.R. 571	Rs.5,200,068 overdue deposits exceeding 2 years were not regulated.	In the years 2020 and 2021, arrangements have been made to regulate the deposits that have exceeded 02 years and in the year 2023, the account management assistant has been instructed to regulate the overdue deposits.	Action should be done in accordance with the referenced regulation.
IV	F.R. 880	Only three of the officers required to give surety in the council had given surety.	That steps will be taken to obtain surety deposits from all the officers who are required to give surety who are performing their current duties and to maintain a relevant register up to date.	Action should be done in accordance with the referenced regulation.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the council for the year ended 31 December 2022 amounted to Rs. 25,390,607 compared with the excess of revenue over expenditure amounted to Rs.44,943,673 in the preceding year.

2.2 Financial Control

Audit Observation

Comments of the council

Recommendation

The excess deposit of Rs.56,372 under unbilled online payments on 01 September 2022 had not been identified and recorded in the accounts during the year under review.

That steps will be taken to settle and account for online payments promptly by working with the relevant institution.

Relevant values should be identified and accounted for.

2.3 Revenue Administration

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

According to the information presented by the Secretary, information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
	000'	000'	000'	000'	000'	000'	000'	000'
i Rates and Taxes	46,330	46,185	38,687	54,320	45,330	39,932	34,650	34,913
ii Rent	22,597	17,666	21,143	13,655	22,577	19,566	6,552	18,648
iii License Fees	1,200	443	482	(39)	1,200	528	528	-
iv Other revenue	93,409	18,773	18,868	(96)	92,735	35,375	35,375	-
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	163,536	83,067	79,180	67,840	161,842	95,401	77,105	53,561
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2.3.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the council	Recommendation
Although 59 percent of the total estimated revenue was billed in the previous year, only 51 percent of the total estimated revenue was billed in the year under review.	No answers provided.	Estimates should be prepared realistically.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) Although a payroll and record management software was purchased for Rs. 865,000 without following the procurement method, it had not been put into operation.	That the relevant software has been purchased from that company in accordance with the council's decisions.	Procurement processes should be followed in purchases.
(b) 11 computer software systems were purchased by paying a total of Rs. 8,435,000 in the years 2019, 2020 and 2022, and the attention to the conditions numbered 6.1 - 6.10 in the agreement entered in the year 2019 were paid and the security of the data was not followed those conditions in order to prevent fraud and corruption.	No answers provided.	Those conditions should be followed to ensure security of data and prevent fraud and corruption.
(c) Although Rs.655,000 had been paid for the stock and store management software system on 18 June 2020, as of the audited date of 30 September 2022, the system was not operational, so this expense had become an idle expense.	-do-	The system should be implemented.

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| (d) | Even though Rs.695,000 was paid for all accounts and records management software by 18 June 2020, by the date of audit on 30 September 2022, it had failed to perform tasks included in the software system such as receiving the balanced monthly payments report (LG 11), preparation of financial statements and bank reconciliations. | -it do- | -do- |
| (e) | The council had not obtained a combustion report on the average amount of gas used to cremate one corpse and the cremation custodian had not maintained a formal register showing the amount of gas received at the crematorium, the amount consumed and the remaining amount. | That a register of dead bodies forwarded to the cremation custodian at Kapuwatta Crematorium is maintained by the cremation custodian and the quantity of gas consumed is compared from time to time with the register of cremated bodies from the quantities of gas cylinders issued from the storage. | Formal records should be maintained. |
| (f) | During the physical inspection of the crematorium on 29 September 2022, it was observed that stones were loose between the burners inside the furnace of the crematorium and due to this, the smoke coming out of the burner was leaking into the external environment. | No answers provided. | Repairs should be done properly. |

3.2 Assets Management
Audit Observation

	Comments of the council	Recommendation
(a) During the vehicle survey conducted by the council, there was no investigation on the lack of 3 handcarts owned by the council.	No answers provided.	Vehicle survey report and vehicle schedule should be prepared properly.
(b) According to the survey report submitted by the council, it was not possible to confirm the land sizes of 4 lands owned by the council.	-do-	The lands and buildings owned by the council should be distinguished and the assessed values should also be identified.

3.3 Human Resources Management

Audit Observation	Comments of the council	Recommendation
There were 11 vacancies in primary level cadre, 11 vacancies in 5 secondary level posts and one vacancy in senior level post.	The Local Government Department as well as the Chief Secretary have been informed about the primary and secondary vacancies through progress reports.	Vacancies should be filled.