

Peliyagoda Urban Council - 2022

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Peliyagoda 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 ,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 Peliyagoda 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 adverse 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 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 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 except the audit matters of 1.6.1 (a) described in paragraph 1.6 of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

(c)

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
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(a) Capital Expenditure Grants of Rs.15,993,681 received as Rs. 15,009,543 and Rs. 984,138 respectively in the years 2020 and 2021 had not been stated under Note No. 10 of the Financial Statements as at 01 January 2022 as per Chapter No. 9.9. the value on the basis of which the corresponding depreciation was calculated during the year under review was not transferred to the comprehensive income of the year as capital grants.	Note numbers 5 and 10 will be prepared correctly in accordance with the standard from the year 2023.	Must be properly accounted for.
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(b) Contrary to paragraph EG 2.7 of the Detailed Explanations for Local Government Standards and as per Chapter No. 9.9, out of the Capital Expenditure Grants of Rs. 1,748,189 received in the year under review Rs. 1,311,142 were recognized as the amount spent in the year and in the form of transfers made by the government for non-recurring expenses had been accounted for as a income to the comprehensive income statement.	That this will be corrected in the final accounts of the year 2023 and that the accounts will be kept correctly in the future.	-do-
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1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) Since it was not corrected for Rs. 322,609 which was recorded twice last year and 8 handcarts value of Rs.940,800 which was over-accounted included in the balance of Rs. 7,780,894 as at 01 January of the year under review, the balance of furniture and office equipment were accounted	That it will be corrected in the final accounts of the year 2023.	Must be properly accounted for.
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overstated by Rs.1,263,409 as at 31 December 2022.

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| (b) | The revaluation value of the buildings of Rs.645,200,000 as at 31 December of the year under review had not been accounted for. | -do- | -do- |
| (c) | The balance of roads and bridges which was Rs.18,445,000 as at 31 December of the year under review, had been accounted as Rs.19,445,000 by overstating of Rs.1,000,000 . | -do- | -do- |
| (d) | Capitalized machinery and equipment of Rs. 1,765,840 had been accounted for twice. | -do- | -do- |
| (e) | A car depreciation expense of Rs.3,044,295 was understated due to accounting of depreciation based on the valuation of the insurance company insuring the cars in the year under review. | Due to the rapid increase in the market value of motor vehicles during the current year, a new revaluation was conducted. That the fairest present book value of the car was taken into account. | -do- |
| (f) | The value of 9 handcarts which were purchased from 2018 to December 2022 worth Rs.1,058,400 and the value of the bicycle worth Rs.60,000 were not accounted for. | That it will be corrected in the future accounting year. | -do- |
| (g) | Creditors over-provision of Rs.484,626 and suspended project works of Rs.3,858,836 totalling Rs.4,343,462 were accounted as creditors. | -do- | -do- |
| (h) | The fixed assets worth Rs.3,919,093 purchased in the year under review were debited to the expenditure of the year in addition to the debit to the respective asset accounts and the reserve and allocation account was credited. | -do- | -do- |
| (i) | Entertainment tax income of Rs.38,000 was not accounted for in the year under review. | Entertainment tax will be presented under a separate account from future year. | -do- |

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| (j) | An interest income of Rs.279,970 related to the previous year for 2 fixed deposits was accounted as interest income for the year under review and an interest income of Rs.217,096 related to 11 fixed deposits for the year under review was under accounted. | That it will be corrected in the next accounting year. | -do- |
| (k) | Since the garbage tax income of Rs.3,118,091 accounted as Rs.2,709,167 in the year review, the garbage tax income was under accounted by Rs.408,924 and the amount of receivable garbage disposal fees of Rs.915,048 was not accounted. | That mistakes will be corrected. | -do- |
| (l) | Although tThe machine depreciation for the year under review should be Rs.775,238, as it was calculated as Rs.1,033,351, the machine depreciation was over accounted by Rs.258,113. | That it will be corrected and presented in the next accounting year. | -do- |
| (m) | The surplus of Rs.33,099,357 for the year under review to be adjusted to the accumulated fund was accounted as Rs.31,788,215 less by Rs.1,311,142. | -do- | -do- |

1.6.3 Unreconciled Control Accounts or Records
Audit Observation

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| (a) | There was a difference of Rs. 25,319,098 as the total balance of 07 accounting heads was Rs.70,502,638 as at 31 December of the year under review and according to the corresponding registers the total balance was Rs.45,183,540,. | That these errors will be corrected in the future accounting year and a more correct accounting report will be prepared. |
| (b) | The reasons for the difference should be found and corrected. | -do- |
| (a) | Although the balance of the miscellaneous debtor account in the ledger was Rs.19,883,414 as at 01 January of the year under review, there was a difference of Rs.1,392,871. as the balance was presented as Rs.18,490,543 as per the schedule, | That such mistakes will not be made in the future. |
| (b) | -do- | -do- |

1.7 Non- Compliances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulation 104	Investigations were not conducted regarding the missing hitch and hook equipment worth Rs.233,600 in two tractors owned by the council.	That a decision will be recorded in the decision book and recovery will be taken from the responsible parties.	Action should be done in accordance with the financial regulations.
(b) Financial Regulation 571	The general deposits worth Rs. 10,777,309 remaining since the year 2012 have not been regulated,.	That the deposit register will be updated and presented with the final account of the year 2023.	-do-

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.33,099,357 as compared with the excess of revenue over expenditure amounted to Rs.33,203,875 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 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	51,000	50,880	52,647	29,084	49,000	45,507	45,487	29,084
(ii) Rent	4,875	2,125	5,060	2,176	4,814	1,963	4,332	3,846
(iii) License Fees	3,400	1,636	3,459	65	2,870	1,587	3,618	392
(iv) Other revenue	30,424	-	74,221	235	55,619	-	51,141	289
	<u>89,699</u>	<u>54,641</u>	<u>135,387</u>	<u>31,560</u>	<u>112,303</u>	<u>49,057</u>	<u>104,578</u>	<u>33,611</u>

3. Operational Review

3.1 Performance of functions assigned by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

Audit Observation	Comments of the Council	Recommendation
The council had not obtained a combustion report from the National Engineering Research and Development Institute on the average amount of gas used to cremate one dead body.	As the National Engineering Research and Development Institute has informed that the cremation reports are given only to the crematoriums arranged by them, the municipal crematorium cannot receive the report. That a register will be maintained from 01.01.2023 on the amount of gas cylinders received from the stores to the crematorium and the amount of cremations carried out.	A formal register should be maintained.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
No advance limit was identified and no advance account was prepared for the officers of the council.	From the year 2023, the limits for advance accounts will be determined and account reports will be submitted.	Limitations should be identified in advance.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Although recommendations were given in the preliminary investigation reports to recover the loss of approximately Rs.95,150 from the responsible officials and to take appropriate actions regarding 04 assets that were misplaced and damaged during the years 2021 and 2022, no action was taken to recover the loss even by the date of audit on 14 December 2022.	That the responsible parties will be charged.	Investigations should be conducted and steps should be taken to recover the losses.
(b) Although a request was made to the Assistant Commissioner of Local Government for an investigation on 24 February 2022 due to the Finance Committee not agreeing to the	Accordingly, the amount of Rs.312,500, which is the loss of the two gates, will be collected from the Sri Jayanthi Community Board.	Investigations should be conducted and measures should be taken to recover damages.

recommendation given to recover the loss of Rs.312,500 regarding the loss of two gate covers, although there was about 10 months passed by 31 December 2022, there was no evidence that an investigation was conducted.

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| (c) Out of the amount of Rs. 300,888 spent to repair the damage to the fuel tank of the JCB machine of the council due to careless operation, the amount of Rs. 77,742 that was not covered by the insurance was not recovered from the responsible parties even on 31 December 2022. | That a decision will be recorded in the decision book in the future and recovery will be done from responsible officers. | Investigations should be conducted and action should be taken to recover damages. |
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3.4 Procurement Management
Audit Observation

Comments of the Council

Recommendation

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| (a) A contract was signed on 21 March 2022 for the sum of Rs.119,126,456 with a private company selected through national competitive bidding for the construction of a mortuary building. Also, although Rs. 24,322,994 was paid to the relevant company on 5 April 2022 as an advance for starting the work, the work on the project was stopped according to the budget circular No. 03/2022 dated 26 April 2023. | No answers provided. | The project should be completed as soon as possible. |
| (b) An idle expenditure of Rs.195,021 had been spent from the council fund due to having to publish the procurement notice twice in newspapers. | The procurement notice was published in trilingual at first and due to the need of the council to make an amendment to the notice, an amendment notice had to be published. | Always act to publish procurement notices correctly. |
| (c) An additional Rs.65,286 had been paid for obtaining a soil test report on the proposed land. | The first time the bill was Rs.396,900 and the second time the bill was Rs.462,186. Accordingly, a more payment had to be made. | Overpayments should be recovered. |