

Maharagama urban council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maharagama 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, Cash Flow Statement and statement of changes of equity 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 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 reported 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 Boralesgamuwa 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

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 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 of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Rs.255,000,000 invested as quarterly fixed deposits should have been shown under current assets but had been shown under long-term investments.	That will be corrected.	Action should be taken to account correctly.
(b) Rs.51,916,753 to be accounted under buildings and Rs.10,097,983 to be accounted under fixtures were debited to the roads, bridges and culverts account.	-Do-	-Do-
(c) Repair cost of rs.4,230,450 to be accounted under recurrent cost were accounted to the roads, bridges and culverts account.	-Do-	-Do-
(d) Under Journal Voucher No. 45 in the accounting, Rs.23,742,772 incurred for repair expenses of roads, bridges and culverts in relation to the previous year had also been debited to the roads, bridges and culverts account.	-Do-	-Do-
(e) In the roads, bridges and culverts account, the value of Rs.36,129,902 related to 17 roads had been accounted for twice.	-Do-	-Do-
(f) During the year under review, the amount of Rs.7,104,000 spent for establishing a solar power system was not capitalized.	-Do-	-Do-
(g) Interest receivable for fixed deposit in the year under review was overstated in the accounts by Rs.268,355.	-Do-	-Do-
(h) The suspense account balance of Rs.11,653 year under review had not settled.	This will identify in future and I would like to inform you that this balance has been placed in suspense	The suspense account balance should be settled.

	account identification.	pending
(i) Property plant purchasing was Rs.135,190,650 overstated in cash flow statement.	That will be corrected.	Cash flow statement should be prepared correctly.
(j) The investment in fixed deposits year under review was Rs.2,650,273 and this amount had not included in the cash flows from investment activities.	-Do-	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) A difference of Rs.8,258,367 was observed the balances related to an account stated in the financial statements compared with the balances stated in the related documents/ reports.	That will be corrected.	The differences should be identified and corrected
(b) At the end of the year under reviewed, the balance of the investment account of urban development fund was Rs.42,617,405 and the balance of the fund deposit account was Rs.49,478,513, the difference was Rs.6,861,108.	-Do-	-Do-
(c) According to the council's account the LLDF loan balance at end of the year of was rs.7,595,186 and according to the confirmations from the LLDF it was rs.7,519,316. The difference was Rs.75,870.	-Do-	-Do-

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
(a) Due to non-submission of detailed schedules amount of Rs.8,921,623 relating to 06 accounting subjects unable to satisfactorily monitored during the audit	Action will be taken to present the schedules.	Schedules should be presented.

- (b) It was not possible to verify the accuracy of the depreciation for the transfer made by the government non-recurring expenses because of non-presented of description for the capital assets identified from the capital grants for the years of 2020, 2021 and 2022.

-Do-

-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.81,910,172 as compared with the excess of revenue over expenditure amounted to Rs.101,372,545 in the preceding year.

2.2 Revenue Administration

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

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.

Revenue sources	Estimated revenue (Rs) 000'	Billed revenue (Rs) 000'	2022		Total arrears as at 31 st December (Rs) 000'	Estimated revenue (Rs) 000'	Billed revenue (Rs) 000'	2021		Total arrears as at 31 st December (Rs) 000'
			Collected revenue (Rs) 000'	Total				Collected revenue (Rs) 000'	Total	
i. Rates income	244,688	250,620	238,377	222,220	250,215	244,429	188,873	288,063		
ii. Rent income	24,545	24,879	25,168	11,928	24,082	23,305	16,799	12,243		
iii. License Fees	600	473	473	-	1,500	1,718	1,718	-		
iv. Other Revenue	9,200	8,735	8,755	-	9,770	7,592	7,565	1,593		
Total	<u>279,033</u>	<u>284,707</u>	<u>272,773</u>	<u>234,148</u>	<u>285,567</u>	<u>277,044</u>	<u>214,955</u>	<u>301,899</u>		

2.2.2 Performance in Revenue Collection

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

Audit Observation	Comments of the council	Recommendation
(a) Rates and Taxes		
(i) Billed rates and taxes revenue for year under review was rs.250,619,612 and Rs.141,292,445 recovered from it but council was failed to recover	Deployed in the field to issue arrears reports to the Property Prohibition Officers for collection of arrears of assessment tax. Red	Action should be taken to recover the arrears according to the provisions of the act.

rs.109,327,166 or forty four percent (44%) notices have been issued. Mobile services are maintained.

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| <p>(ii) At the end of last year, the rates and tax debtor balance was Rs.201,659,506 out of which Rs.75,276,385 or thirty seven percent (37%) had been recovered during the year under review. According to that the council had failed to recover Rs.126,383,121 or sixty percent (63%)</p> | <p>-Do-</p> | <p>-Do-</p> |
| <p>(iii) As of 31st December of the year under review, Rs25,097,966 from 73 properties above Rs.100,000 and Rs.8,365,740 from 123 properties between Rs.50,000 and Rs.100,000 remained outstanding.</p> | <p>Arrears lists have been given to the Revenue Inspectors to recover the outstanding balances above Rs.50,000. Letters have been sent them to pay the arrears separately for the properties asking. Red notices have been issued.</p> | <p>Action should be taken to recover the arrears revenue according to the provisions of the act.</p> |

(b) Rent

<p>The number of properties that can be leased on tender by the council is 406 and in the year 2022, although only Rs.17,501,434 had been charged from the billed value was Rs.21,188,230.</p>	<p>Charging process is in progress.</p>	<p>Action should be taken to recover the outstanding.</p>
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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
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(a) Project execution

<p>In the year 2022, 174 projects had been approved to be implemented from the general fund with an amount of Rs.375,140,879 and only 101 projects were completed in the year under review. There were 72</p>	<p>There were 01 canceled projects and 72 unfinished projects. So far, 21 projects have been completed and paid for. There are still 51 unfinished projects left to be implemented.</p>	<p>Action should be taken to completed the projects within the deadline.</p>
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unfinished projects and its value was Rs.162,212,215. Also, 03 projects worth Rs.7,126,845 that were signed in the year 2021 did not start work until 23rd of February 2023.

(b) Acquisition and Naming of Roads

In the year 2022, the council had decided to take over and develop 21 roads based on the requests made by the public, but they had not been taken over and development work had been done.

No comments

Roads should be taken over and development work should be done.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A current account closed in August 2015 had a nominal value of Rs.2,052,258 under cash and it was not settled in the year under review as well.	A letter was sent to the Commissioner of Local Government to write off this balance based on the investigations carried out. A committee has been appointed to investigate again.	Action should be taken to settle.
(b) In accordance with Asset Management Circular No. 4/2018 of the Ministry of Finance and Mass Media dated 31 st of December 2018, all fixed assets of the institution must be revalued when submitting financial statements, but the municipal council had not revalued the assets in the year under review as well.	At present, arrangements are being made for the re-valuation.	Revaluation should be done.

3.3 Establishing a solar power system under the net accounting system.

Audit Observation	Comments of the Council	Recommendation
Although there were 03 methods of adding the electricity generated by the solar panel electricity system installed at a cost of 11 million rupees to the national system, the	This was done under the supervision of Sustainable Energy Authority.	A cost benefit analysis should have been undertaken.

council had identified the Net Accounting System without doing a cost benefit analysis of those methods to identify the most beneficial method.

3.4 Assets Management

Control of buildings

Audit Observation	Comments of the Council	Recommendation
(a) Information regarding 73 lands was submitted to the audit, out of which the values of only 38 lands had been identified and accounted for in 2022.	Officers have been informed to identify the value and take necessary steps to account.	Value must be identified and account.
(b) According to the received information to audit, deeds were not obtained to confirm the legality of the 08 pieces of land identified as owned by the council.	Directed for the process of preparation of Declaration Deeds.	Arrangements should be made to obtain the deeds.

3.5 Identified losses

Audit Observation	Comments of the Council	Recommendation
The multi-storied car park was leased by the lease agreement signed on 1st January of the year under review. According to condition number 13 of the lease agreement, the water bills and electricity bills of the car park should be paid by the lessee, but the council had paid the electricity bills worth Rs.172,079 in relation to the year 2022.	Rs.103,000 has been recovered from the electricity bills paid by the council.	The electricity bill should be charged as per the agreement.

3.6 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
As on 31 st of December 2022, Rs.1,629,348 from 32 transferred officers, Rs.1,340,742 from 14 deceased and retired officers and Rs.1,140,446 from 23 officers who left the service, totaling of Rs.4,110,536 had not been recovered.	The loan balance is being recovered.	Action should be taken to recover outstanding loan balances immediately.

3.7 Contracts Management

Audit Observation	Comments of the Council	Recommendation
Construction of Makumbura Crematorium		
(a) According to section 02 of Ministry of Local Government Environment (Western Provinces) Circular No. 03/2020 dated 17 th of July 2020, even in a project that is implemented in phases, the scope and total cost estimate for each phase must be prepared and should obtained the approval and to call for tenders related to each phase must be used the estimate of that related phase. Although in the year under review, the total cost estimate of the Makumbura crematorium construction was Rs.31,700,000 and it was estimated as 08 works and awarded to 02 community based societies.	I acknowledge that the scope related to each phase is not set. But in the total cost estimate (except Phase 1) relevant approvals have been obtained for the subsequent phases. As per circular 1/2021, the estimate in relation to each stage has been used for awarding contracts to community based organizations. Both the societies that have offered this two contracts are registered in the same division of crematoria.	It should be done according to the circular.
(b) Also, justification reports and feasibility report were not submitted as per Section 03 of the said circular and as per Section 06 projects with total estimated cost more than Rs.4 million should be agreed as per the procurement guidelines and conditions of the contract of Construction Industrial Development Authority (CIDA) but in this case was not done with the circular.	I accept the deficiency pointed out by the audit. Accordingly, feasibility reports and justification reports have not been prepared, but a project report has been prepared for that. However, based on the approved estimate of the general audience construction has been accomplished by community based organizations as per circular 1/2021.	Justification reports and feasibility reports should be submitted.