

Seethawakapura Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Seethawakapura Urban Council for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, 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 provisions of the National Audit Act, No. 19 of 2018 and 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 Seethawakapura Urban Council as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities.

1.2 Basis for Qualified Opinion

A qualified opinion on financial statements will be expressed based 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 Government Authorities, and for such internal control as management determines 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 of the Urban Council.

1.4 Scope of Audit (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 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 Urban Council's 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

The National Audit Act, No. 19 of 2018 includes special provisions for following requirements.

- (a) The financial Statements of the Urban Council are consistent with the preceding year as per the requirement of Section 6 (i) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations for the Preparation of Financial Statements

1.6.1 Accounting Policies

According to Sri Lanka Public Sector Accounting Standard – 2017 for Local Government Authorities, the following matters had not been disclosed in the financial statements.

Audit Observation	Comments of the Council	Recommendation
All assets which do not fall under referred Sections should be classified as non-current assets. However, the value of 05 fixed deposits with annual maturity totalling Rs.27,163,088 had been indicated under cash and cash equivalents in the statement of assets and liabilities.	Action will be taken to rectify this error in the preparation of financial statements as at 31.12.2023.	Should be complied with Accounting Policies.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs.4,057,431 allocated as creditors for Thoroughfares, Culverts and Bridges of which works have not been completed in the year under review, had been debited to the thoroughfares, culverts and bridges account instead of the work-in-progress account.	Action will be taken to rectify this error in the preparation of financial statements for the year 2023.	Assets should be accounted accurately.
(b) A sum of Rs.2,221,929 allocated as creditors for development works-in-progress in the year under review had been accounted as expenditure on repairs.	Action will be taken to rectify this error in the preparation of financial statements for the year 2023.	Capital assets should be accurately identified and brought to account.

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| (c) | A sum of Rs.2,212,780 paid for construction of buildings in the year under review had been accounted under thoroughfares, culverts and bridges. | Action will be taken to rectify this error in the preparation of financial statements as at 31.12.2023. | Assets should be accounted accurately. |
| (d) | A sum of Rs.3,098,533 had been credited to the Buildings Account instead of the sum of Rs.107,814 over accounted for the Urban Council building in the year 2021. As such, property, plant and equipment had been understated by Rs.2,990,719, thus understating the depreciation value for the year by Rs.74,768. | Action will be taken to rectify this error in the preparation of financial statements as at 31.12.2023. | -do- |
| (e) | The library software valued at Rs.800,000 included in the creditors' balance in the year 2022 not installed even by 30 March 2023, had been accounted as other infrastructure facilities. | As purchases could not be made in the year 2022, the sum of Rs.800,000 allocated therefor by the budget was allocated as creditors for the year 2022. | -do- |
| (f) | The advance of Rs.5,119,500 received for stalls in the year under review had been included in the transfers made by the Government for non-recurrent accounts. | The stall rent received at once is entered in the Revenue Head 115-06-5200 and receipts have been indicated as transfers made by the Government for non-recurrent expenditure under Note No.5 when preparing financial statements. | Should be accounted accurately. |
| (g) | Depreciation for fixed assets for the year under review had been overstated by Rs. 1,986,381. | Action will be taken to rectify this error when preparing financial statements for the year ended 31.12.2023. | Depreciation should be computed and accounted accurately. |
| (h) | The value which should be transferred to the revenue in the year 2022 relating to the non-recurrent transfers of Rs.7,877,740 made by the Government in the years 2020 and 2021 was Rs.787,774. Nevertheless, a sum of Rs.12,549,756 was transferred to the statement of revenue, thus overstating the revenue of the year by Rs.11,761,982. | Action will be taken to rectify this error when preparing financial statements for the year ended 31.12.2023. | Revenue should be accounted accurately. |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
According to confirmation of bank balances as at 31 December of the year under review, the value of fixed deposits of the Council was Rs.28,008,185 and the value of fixed deposits was Rs.27,865,707 in the statement of assets and liabilities, thus observing a difference of Rs.142,478.	According to confirmation of bank balances as at 31.12.2022, the value of fixed deposits of the Council amounting to Rs.27,865,707.00 has been brought to account.	Reasons for the difference should be looked into and necessary action taken.

1.7 Non-compliances

Non-compliances with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions appear below.

Reference to Non-compliance Laws, Rules, Regulations etc.	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- F.R.571	Miscellaneous deposits valued at Rs.27,732,700 lapsed over 03 years as at 31December 2022 had not been disposed of.	Action is being taken in terms of Financial Regulation 571 relating to miscellaneous deposits lapsed over 03 years as at 31December 2022.
		Balances of deposit accounts should be disposed of in terms of F.R.

2. Financial Review

2.1 Financial Results

According to financial statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2022, was Rs.15,143,714 and as compared with the preceding year, the excess of revenue over expenditure was Rs.32,239,840.

2.2 Control of Revenue

2.2.1 Revenue estimated, billed, collected and in arrears

According to the information made available by the Chairman, details on revenue estimated, billed, collected and in arrears presented relating to the year under review and the preceding year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
(i) Rates and Taxes	32,211	32,142	22,543	28,955	22,390	31,347	26,492	19,356
(ii) Rentals	41,165	31,367	33,607	4,490	45,000	31,096	10,684	9,439
(iii) Licence Fees	1,293	237	1,095	-	1,397	588	588	
(iv) Other Revenue	13,407	30,821	13,206	-	6,061	25,742	5,742	24,946
	88,076	94,567	70,451	33,445	74,848	88,773	43,506	53,741

2.2.2 Performance of Revenue Collection

Observations on the performance of collection of revenue of the Council are as follows.

Audit Observation	Comments of the Council	Recommendation
(a) Arrears of revenue from rates recoverable as at 31 December 2022 was Rs.23,784,454.	The relevant arrears are collected through officers of the Council and action is being taken to recover these arrears of revenue by mobile services, going from house to house and issuing red notices.	Action should be taken to recover arrears of rates.
(b) Arrears of revenue from stall rentals as at the end of the year under review was Rs.4,491,950 and appropriate action had not been taken to recover these arrears of revenue.	Arrangements have been made to take action in terms of agreements relating to defaulters of stall rentals.	Action should be taken to recover stall rentals in arrears.
(c) The rest house rentals in arrears recoverable as at 31 December 2022 was Rs.7,075,592.	Action has been taken to recover the relevant arrears and accordingly, several rounds of discussions have been held after which the relevant institutions have been notified through letters. As there is a Cabinet Decision that one	Action should be taken in terms of agreements.

Government institution cannot take legal action against another Government institution, no lawsuit has been filed in courts relating to the relevant rest house rental and all authorities have been briefed thereon.

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| (d) | Entertainment tax amounting to Rs.516,862 had not been settled as at 31 December. | No confirmation can be made of arrears of entertainment tax of Rs. 516,862 through relevant registers of recovery of entertainment tax. | Appropriate measures should be taken. |
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3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) It had been reported at the survey conducted by the Council in the years 2020 and 2021 on buildings and lands that the extent relating to property had not been identified and that there are community halls which are overgrown with weeds and should be repaired as well as unauthorized constructions and public places to be maintained. However, the said property had not been classified and reported in a manner of identifying them.	Action is being taken to legalize the property owned by the Council. Cleaning activities were carried out surrounding the community halls within the jurisdiction of the Urban Council which were overgrown with weeds and action will be taken in future to repair the community halls which should be repaired, on existing provision.	The Council should take action to vest the assets.
(b) According to the creditors' age analysis as at 31 December 2022, the creditors' balance of a year was Rs.12,146,371.	The total creditors' balance brought forward as at 31.12.2022 was Rs.12,252,370 and it is informed that this balance was Rs.12,146,371 by 20.04.2023. Action will be taken to settle this creditors' balance in future.	Steps should be taken to settle the said loan balance.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Council	Recommendation
According to Agreement No.248/334 of 09 June 1989, the land owned by the Council had been leased out to the Bank of Ceylon on 01 July 1988 on the thirty year lease basis. According to that lease agreement,	A lawsuit is in progress in the Awissawella District Court under Case No.29081/19 by now and forthcoming activities are	Appropriate measures should be taken.

even though the monthly lease rental was Rs.80,000, the monthly lease rental according to the new valuation of the Valuation Department was Rs.475,000 after the expiry of the lease period in the year 2018. As tax was not recovered on the new valuation, the revenue recoverable from rentals from 01 July up to 18 November 2022, was Rs.22,561,718.

due to be carried out on the judgement of the relevant lawsuit.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation

The record room constructed in the year 2021 by the Council in the upper floor of the office building valued at Rs.4,522,729 had been underutilized without being completed even by the end of the year under review.

Comments of the Council

Even though money was allocated under Provincial Council provision for completing the remaining works of the upper floor of the office building, the said provision was not received. As such, works have been completed by utilizing Council funds so that the record room section could be used. Remaining constructions will be carried out immediately after provision for the remaining works of the upper floor is allocated.

Recommendation

The remaining works should be completed expeditiously by making provision or by Council funds.

3.4 Assets Management

Audit Observation

- (a) Even though a period between 01-04 years had elapsed after the expiry of the period of agreement relating to 06 quarters remaining under the administration of the Urban Council, action had not been taken to enter into agreements again. Moreover, action had not been taken to recover the possession of quarters from an officer who retired on 03 January 2022.

Comments of the Council

Notices of vacation have been issued to employees occupying quarters exceeding the period of agreement. However, the quarters have not been returned to the Council. Taking legal action in this regard has delayed as the Council is in charge of only the administration of these quarters.

Recommendation

Action should be taken to vest the legal ownership of quarters in the Council and agreements should be updated.

<p>(b) Action had not been taken so far to vest the legal ownership of 02 lands with common amenities of 04 Roods and 12 perches in extent of the Aradhana Kanda Watte under the administration of the Urban Council. Moreover, unauthorized constructions had been carried out on an extent of 58.18 perches thereof and the Council had not taken action to remove them and utilize for common amenities.</p>	<p>The two blocks of the Aradhana Kanda Watte have been surveyed and plans prepared. However, the unavailability of confirmation of the ownership of those two blocks in writing was problematic in removing unauthorized constructions.</p>	<p>The activities of vesting of property should be expedited.</p>
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**4. Accountability and Good Governance
Annual Action Plan**

Audit Observation	Comments of the Council	Recommendation
<p>(a) One hundred and forty one properties identified as belonging to the Council had been reported and the Council had taken action to obtain legal ownership of only 30 properties.</p>	<p>Legal documents should be prepared for 111 of 141 properties identified as belonging to the Urban Council. Action is being taken to survey and prepare plans and deeds of declaration, relating to all properties of which the ownership could and could not be confirmed.</p>	<p>Action should be taken to reach targets in accordance with the Action Plan.</p>
<p>(b)The Council has received 42 public complaints in the year under review of which 21 complaints had not been resolved.</p>	<p>According to the Register of Public Complaints relating to the year 2022, forty two complaints have been received and action has been taken to resolve 21 of those complaints.</p>	<p>-do-</p>