

Nawalapitiya Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nawalapitiya Urban Council for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, 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 Sub-section 181 (1) of the Urban Council Ordinance (Cap.255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Nawalapitiya Urban Council as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 Practices, 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 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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 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 the Urban Council 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- Financial statements of the Urban Council are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, are included in the financial statements presented.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Council	Recommendation
(a)	The fixed deposit interest income of Rs. 946,695 related to the year under review had not been accounted for.	Corrections will be made in the future.	Accuracy should be ensured in the accounting process.
(b)	Despite the writing off of shares amounting to Rs.8,530,045 receivable in the construction of the Super Market Complex, it had been stated as creditors.	Shares to be obtained in the construction of the market complex have been written off under the approval of the Sabha.	-Do-

1.6.2 Unreconciled Control Accounts or Records

	Audit Observation	Comment of the Council	Recommendation
	When comparing the general stores balance stated in the financial statements with the subsidiary documents, there was a difference of Rs.1,125,003.	The difference will be examined and corrected.	Account balances should be corrected.

1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

	Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Council	Recommendation
(a)	Section 32 of the Urban Council Ordinance (Chapter 255).	Without the approval of the President or the Governor, the land with 0.61 perch which is located in Pasu Mawatha in Dolosbage and depicted as Lot No. 01 in the Deed No.1772 had been given to a person on a long-term lease to construct a building, and in the year 2014, the Wagonspark land had been given on a long-term lease to the Nawalapitiya Multipurpose Cooperative Society to construct a milk bar.	The approval of the Hon. Governor has been sought.	Action should be taken in accordance with the provisions of the Act.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
	Financial Regulation 571 (3)	Fifteen lapsed deposits valued at Rs.695,585 related to the period 2016-2020 had not been settled.	Action will be taken to settle it immediately.	Action should be taken in accordance with Financial Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs.39,334,039 for the year ended on 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.35,422,917.

2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
Without being taken action to settle Rs. 736,000 deposited in the bank on 10 January 2019, it had been stated in the bank reconciliation as the differences occurred in the bank and the cash book.	Action will be taken to find out the matter and settle it immediately.	Action should be taken to settle the amount.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

According to the information submitted by the Chairman, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue 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.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	14,556,530	13,347,331	13,726,250	19,191,158	15,003,680	13,361,200	10,004,420	19,570,077
(ii) Rents	45,855,195	46,718,659	20,711,891	118,103,686	46,438,550	36,873,180	9,588,632	92,096,918
(iii) License Fees	590,000	536,450	536,450	-	6,450,000	361,020	361,020	-
(iv) Other Revenue	5,400,000	4,244,200	3,431,678	6,064,054	5,495,000	4,107,600	2,343,400	5,251,532
	<u>66,401,725</u>	<u>64,846,640</u>	<u>38,406,269</u>	<u>143,358,898</u>	<u>73,387,230</u>	<u>54,703,000</u>	<u>22,297,472</u>	<u>116,918,527</u>

2.3.2 Performance in the Collection of Revenue

Audit Observation	Comment of the Council	Recommendation
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(a) Rates and Taxes

The balance of the rates that remained outstanding as at the end of the year under review amounted to Rs. 18,335,885 and the arrears of rates totalling Rs. 13,330,036 due from 423 rating units with the arrears exceeding Rs.10,000 per unit had not been recovered.	Action will be taken to recover the arrears.	Action should be taken in accordance with the Act.
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(b) Stall Rent

- (i) The outstanding stall rent balance as at 31 December of the year under review amounted to Rs. 109,856,200 of which, sums totaling Rs. 31,252,283 due from 27 stalls with the arrears of rent exceeding Rs. 1,000,000 had not been recovered. After conducting investigations on objections, action will be taken to recover the arrears. Arrears should be recovered in accordance with the agreements.
- (ii) Although lease rents of 147 public stalls in Nawalapitiya were being recovered from the taxpayers in the range of Rs.400 to Rs.1,500 per month, the information on how the rents were calculated was not submitted to the audit. The manner in which the lease rent has been recovered will be looked into and submit the facts. Rent should be recovered on the assessment.

(c) Other Revenue

Charges of Rs.1,011,849 had not been recovered from 165 advertisement boards during the year under review. Action will be taken to send letters to recover the arrears. Arrears of charges should be recovered.

(d) Court Fines and Stamp Duty

The stamp duty that remained receivable from the Chief Secretary of the Provincial Council and the other authorities as at 31 December of the year under review amounted to Rs. 4,754,650. Adjustments will be made in the accounts according to the schedules. Court fines and stamp duty should be recovered.

3. Operating Review

3.1 Execution of duties entrusted by the Act

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

Audit Observation

Comment of the Recommendation Council

According to the reports of the water sample test conducted in the Handungala Watta and Ambagamuwa water projects, the coliform bacteria content ranged from 14 to 184. Action will be taken to carry out maintenance activities and cleaning by deploying employees. Clean drinking water should be distributed.

Accordingly, the water was unfit for drinking. Although the council should act as the public health authority in terms of Section 104 of the Urban Council Ordinance (Chapter 255), the contaminated water, which is unfit for drinking, had been distributed to the public without any concern about that matter.

3.2 Identified Losses

Audit Observation	Comment of the Council	Recommendation
Despite the issuance of a preliminary report on 18 July 2022 in terms of Finance Regulation 104(3) regarding the damage caused to a cab belonging to the Council on being attacked by a riotous group at Koswatta Junction due to the unrest situation in the country on 09 May 2022, no steps had been taken to submit a full report as per Finance Regulation 104(4), although a period of 07 months had been completed since the occurrence of the accident.	After identifying the amount of loss, it has been referred to the Department of Local Government.	After identifying the amount of loss, action should be taken in accordance with the Financial Regulations.

3.3 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Seven account balances remained receivable as at 31 December of the year under review totalled Rs.14,098,493, of which the total balance related to the period from 1 to 5 years amounting to Rs.9,205,548 and the balance that continued to exist for more than 5 years amounting to Rs.3,094,193 had not been recovered.	Outstanding balances will be recovered and reported.	Receivable balances should be recovered.
(b) Two account balances remained payable as at 31 December of the year under review totalled Rs.11,333,498, of which the total balance related to the period from 1 to 5 years amounting to Rs.1,370,864 and the balance that continued to exist for more than 5 years amounting to Rs. 556,379 had not been settled.	Action will be taken to settle this after examining the matter.	Payable balances should be settled.

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| (c) | Although the water service of the council had been handed over to the Water Supply and Drainage Board in the year 2008, the outstanding water charges of Rs. 707,373 as at that date had not been collected. | Action will be taken to write off the balances that are unable to recover and to levy the other outstanding balances. | Arrears of water charges should be recovered. |
| (d) | Lease of Rs. 775,004 relating to the railway reservation lands continued to exist from the year 2020, and it had not been settled. | Action will be taken to make payments after obtaining copies of the agreements. | Action should be taken to settle the amount. |

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation

Comment of the Council

Recommendation

Nine vehicles valued at Rs.1,390,750 remained idle and underutilized over a period of 01 to 12 years as at the end of the year under review.

Action will be taken to repair and auction the vehicles.

Action should be taken to repair and auction the vehicles.

3.5 Assets Management

Audit Observation

Comment of the Council

Recommendation

- (a) No action had been taken to take over the cab used by the Council.

Necessary arrangements are being made to take over the cab.

Ownership should be taken over.

- (b) The land on which the supermarket complex was built at a cost of Rs.252,607,552 and the land on which the Imbulpitiya Environmental Conservation Center was built at a cost of Rs.21,950,873 had not been taken over.

Action will be taken to take over this land.

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3.6 Delays in projects, functions or capital works

Audit Observation

Comment of the Council

Recommendation

In order to build a fence around Bawvagama Cemetery, an agreement had been entered into for Rs.500,000 in the year 2017 and the construction had been awarded. Although the payments had been made on 03 April 2018, work on the project had been abandoned after completing only a part of the construction worth Rs. 325,089.

Action will be taken to proceed with the remaining works of the project as per the agreement.

The cemetery should be utilized on completion of the work.

**3.7 Human Resource Management
Audit Observation**

Comment of the Council Recommendation

(a) Cadre vacancies and excesses

When comparing the approved cadre with the actual cadre, there were 42 vacancies in 08 posts and 12 excess cadre in 03 posts. Due to the vacancies in the posts of Public Health Inspector and Revenue Inspector, the work of the Council had been interrupted.

Details regarding the vacancies have been reported through the monthly staff information reports.

Vacancies should be filled.

(b) Employees Loans

Loan balance totalling Rs.1,562,289 had not been recovered from 40 officers and employees who had retired, transferred, vacated the service and died during 2018-2021.

Action should be taken to recover the dues from the relevant parties.

Loans should be recovered.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

Comment of the Council Recommendation

When comparing the estimated income and expenditure of the budget prepared for the year under review with the actuals, variations ranging from 34 per cent to 100 per cent were observed relating to 21 items of income, while variations ranging from 50 per cent to 100 per cent were observed in relation to 68 items of expenditure. Accordingly, the budget had not been made use of as an effective instrument in control.

Action will be taken to make corrections in the future.

The budget should be prepared with due regard in keeping with the necessities.

4.2 Sustainable Development Goals

Audit Observation

Comment of the Council

Recommendation

The Council had not identified the sustainable development goals and targets.

Action will be taken in this connection in the future.

Goals and targets should be identified and implemented.