

Wattegama Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Wattegama 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 Wattegama 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)	Receivable stamp duty of Rs. 1,154,760 related to the year under review had been understated in the accounts.	The stamp duty that remained receivable for the year under review could not be correctly identified.	Accuracy should be ensured in the accounting process.
(b)	Receivable court fine income of Rs. 33,077 related to the year under review had been overstated in the accounts.	The court fine income that remained receivable for the year under review could not be correctly identified.	-Do-
(c)	A stock of drugs worth Rs.400,000 had been erroneously credited to the Contributions from Donation Account.	This amount has been credited to the Donation Account due to a mistake.	-Do-
(d)	The creditors balance of Rs. 2,000,000 relating to the preceding year and the year under review had been debited to that account and subsequently, it had been irregularly credited to the Welfare Services Revenue Head (6/18) stating as the implementation of the project of the year under review. Thereafter, without being carried out the projects during the year under review, the expenditure had been	Provisions were obtained as per the query.	-Do-

debited and creditors had been credited erroneously.

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| (e) | Eight units of vehicles and machinery valued at Rs. 1,071,429 that had been auctioned and withdrawn from use in the previous years had been further stated in the accounts. | Action will be taken to correct this. | -Do- |
| (f) | Without entering into an agreement or starting the projects, a sum of Rs. 1,000,000 had been stated as creditors for vehicle repairs during the preceding year and Rs. 3,277,691 had been stated as creditors for 03 projects during the year under review. As a result, creditors and expenditure of the year under review had been overstated by Rs. 3,277,691. | These amounts were stated as creditors to carry out necessary activities after the receipt of approval. | -Do- |

1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation
Due to the failure to submit the reports of the verification of stores, inventories, information on the physical existence and balance confirmation letters, 06 accounts balances totalled Rs. 5,347,715 as at 31 December of the year under review could not be satisfactorily examined during the audit.	After correctly identifying, the documents will be submitted in the future	The documents and files required for the confirmation of balances should be prepared.

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 and regulations	Non-compliance	Comment of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka. F.R. 571 (3)	The balances of 06 lapsed deposits totalling Rs. 154,022 had not been disposed of.	After obtaining this money, action will be taken to make payments.	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 Sabha in excess of the recurrent expenditure amounted to Rs. 13,437,587 as at 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 8,146,981.

2.2 Revenue Administration

2.2.1 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	18,632,500	19,260,675	20,923,925	10,136,765	18,669,500	18,851,056	12,690,626	11,800,015
(ii) Rents	7,421,000	8,257,365	8,306,332	199,127	6,543,000	6,234,932	6,094,539	248,094
(iii) License Fees	1,176,500	1,104,785	1,108,725	2,060	1,097,000	1,066,600	1,063,600	6,000
(iv) Other Revenue	6,318,000	12,212,032	12,088,000	1,125,077	52,536,200	48,901,825	47,937,113	1,001,045
	33,548,000	40,834,857	42,426,982	11,463,029	78,845,700	75,054,413	67,785,878	13,055,154

2.2.2 Performance in the Collection of Revenue

	Audit Observation	Comment of the Council	Recommendation
(a)	Rates		
(i)	The outstanding balance of rates by the end of the year under review amounted to Rs. 3,189,941 and there was an arrears of rates totalling Rs. 1,786,202 due from 196 rating units with the arrears exceeding Rs.5,000 per unit.	Arrears will be recovered by conducting programmes.	The arrears of rates should be recovered in accordance with the provision of the Act.
(ii)	In terms of Section 20 of the Rating and Valuation Ordinance No.30 of 1946, valuation should be carried out once in 05 years. Nevertheless, rates for the year 2022 had been levied based on a valuation done on 02 January 2015.	That the revisions will be initiated in the future.	Rates should be valued after obtaining new valuation reports.
(b)	Rent		
(i)	Since the rent from 10 low-rent houses situated on the Kudugala Road had been levied based on the valuation carried out in the year 1992 without implementing the valuation of the year 2019, the Sabha had sustained a revenue loss of Rs. 811,040 for a period of 36 months from December 2019 to 31 December 2022.	Action will be taken to recover the stall rents according to new valuation reports.	The prescribed stall rent should be recovered according to the valuation reports.
(ii)	Although stall rents of 14 stalls belonging to the Sabha had been revised according to the valuation report dated 22 June 2022, no action had been taken to enter into new agreements in accordance with the terms in Paragraph 04 (iii) of the lease agreement.	Although it was informed to enter into agreements, consent was not given for that purpose.	Rent should be levied by entering into agreements according to the new valuation.
(c)	Other Revenue		
(i)	The outstanding balance of water charges as at the end of the year under review amounted to Rs. 6,946,823 and the amount due from 168 water consumers units with the arrears exceeding Rs.10,000 per unit totalled Rs. 898,623.	Action will be taken to recover the arrears by implementing disconnecting orders.	Arrears of water charges should be recovered.

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| (ii) | Water meters had not been installed for 757 consumers and action had been taken to recover a fixed charge of Rs.400 from domestic units and Rs.500 from businesses. | Action will be taken to install water meters in the future. | Water meters should be installed and accordingly, prescribed charges should be recovered |
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2.2.3 Court Fines and Stamp Duty

The court fines and stamp duty 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. 325,077 and Rs. 800,000, respectively.

Arrears of stamp duty and court fines will be recovered.

Arrears of stamp duty and court fines 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 Council	Recommendation
(a) Attention had not been focused on the implementation of public utility services such as, a preschool, a weekly fair and a children park.	Once the provisions were received, these projects will be implemented.	The Act should be adhered to.
(b) Twenty-seven development schemes for which provisions of Rs. 4,888,750 had been made by the annual budget were not implemented.	As the proposals of the Sabha had not been approved, these projects were not implemented.	Projects approved by the budget should be implemented.
(c) According to the water sample tests performed in 03 water projects of the Sabha in the year 2019, the E Coli bacteria concentration ranged from 30 to 760. Despite being stated according to Section 104 of the Urban Council Ordinance (Cap.255) that the Council should act as the Public Health Authority, contaminated water had been distributed among the people.	This will be inspected and reported in the future.	Pure water should be distributed after testing water samples.

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| (d) | Action had not been taken to maintain a gully bowser service for the disposal of sewage in the area in keeping with provisions of Section 118 of the Urban Council Ordinance (Cap.255) | Gully bowser service is obtained from other Councils. | The Act should be adhered to. |
| (e) | Despite being provided Rs.500,000 for 05 items to conduct rabies prevention programmes, waste management, dengue prevention programmes, health and environmental services and food sample testing during the year under review, those activities had not been carried out. | That the provisions were obtained. | Relevant activities should be carried out by obtaining provisions. |

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Three receivable account balances as at 31 December of the year under review totalled Rs. 12,842,274, of which the balance related to the period between 3 and 5 years totalled Rs. 583,167 and the balance that continued to exist for more than 05 years totalled Rs. 1,064,887 .	Action will be taken to recover the balances by informing relevant parties.	The receivable balance should be recovered.
(b) Four payable account balances as at 31 December of the year under review totalled Rs.16,493,232, of which the balance related to the period between 1 and 3 years totalled Rs.1,967,675 and the balance that continued to exist for more than 05 years totalled Rs.287,663.	Action will be taken to credited them to the revenue and make payments.	Action should be taken to settle payable balances.
(c) Eight houses had been unlawfully constructed and occupied in the waste yard premises in Dunoya Kumbura/ Pussepitiya alias Miyanpahe Watte on Matale road.	Action will be taken to repair and provide the houses in the future.	Action should be taken to evict the unauthorized occupants.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Council	Recommendation
(a) Seven vehicles and machines totalled Rs.8,653,125 remained idle and underutilized over a period ranging from 03 to 10 years.	Action will be taken to auction and use after attending to repairs.	Action should be taken to auction or utilize them.
(b) The children's library completed at a cost of Rs.2,982,977 on 06 July 2020 remained idle even by the end of the year under review.	After carrying out repairs, action will be taken to establish the children's library.	The building should be utilized for a useful purpose.

3.4 Delays in projects, functions or capital works

Audit Observation	Comment of the Council	Recommendation
After constructing a section of the Korahitiyadeniya road commenced on 27 July 2022 for an estimate of Rs.850,000 and paying Rs.200,000, the constructions had been abandoned.	The extension has been obtained for the completion of works and late fee will be levied.	Action should be taken in accordance with the agreements.

3.5 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
(a) Cadre vacancies and excesses When comparing the approved cadre and the actual cadre, there were 08 vacancies in 06 positions.	Action will be taken to fill vacancies.	Relevant activities should be carried out in accordance with the approved cadre.
(b) Employees Loans A loan balance of Rs.84,250 due from an officer who retired on 28 July 2021 had not been recovered.	This matter has been informed to the Department of Pensions in writing.	Loan balances should be recovered.

4. Accountability and good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Council	Recommendation
(a) During the year under review, there were variations ranging from 24 per cent to exceeding 75 per cent relating to 02 items of income, while there were variations ranging from 31 per cent to exceeding 100 per cent in relation to 06 items of expenditure. Any expenditure had not been incurred from provisions of Rs.4,266,000 allocated for 25 Objects in each programme. Accordingly, the budget had not been made use of as an effective instrument in control.	Despite making provisions for expenditure heads, savings had occurred.	The budget should be prepared with due regard in keeping with the necessities.
(b) Without allocating provisions in the annual budget, 13 development projects valued at Rs.2,894,925 had been implemented during the year under review.	The development projects approved by the general assembly were implemented.	The annual budget should be adhered to.

4.2 Sustainable Development Goals and Targets

Audit Observation	Comment of the Council	Recommendation
Despite being identified the sustainable development goals and targets by the Sabha in terms of provisions of the Sustainable Development Act, No.19 of 2017, indicators had not been identified to achieve them and evaluate progress.	Relevant activities will be done in the future.	Sustainable development goals and targets should be achieved by identifying relevant indicators.