

## **Pointpedro Urban Council - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Pointpedro Urban Council including the financial statements for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022, income and expenditure account for the year then ended 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 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, 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 Pointpedro Urban Council as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

I expressed qualified opinion 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 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.

#### **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.

- 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.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6(1)(d)(iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations on the preparation of Financial Statements Accounting Deficiencies

| Audit Observation                                                                                                                        | Comment of the Council                                                       | Recommendation                        |
|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|---------------------------------------|
| (a) The value of markets and bus stands and two lands received as donations totalling Rs.303,478,500 had not been accounted for.         | Actions had been taken to show in the financial statements of the year 2023. | Accounts should be properly prepared. |
| (b) The value of 04 properties worth Rs.59,230,000 which was not owned by the council had been accounted as assets owned by the council. | Actions are being taken to take over.                                        | -do-                                  |

## 1.7 Non-compliances

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

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc. are shown below.

| Non-compliance with Laws, Rules, Regulations and Management Decisions etc. | Non-compliances                                                                                  | Comment of the Council                    | Recommendation                                                  |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------------------------|
| (a) Section 160(1) of Chapter 255 of Urban Council Ordinance Act,          | The council had not issued "K" forms for 1,926 properties out of 7,681 to be recovered rates and | As the property owners live abroad and in | Actions should be taken according to the provisions of the Act. |

taxes in the year under review. other areas, the forms could not be provided.

- (b) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka
- Appropriate actions had not been taken in respect miscellaneous deposits and security deposits exceeding 02 years amounting to Rs. 604,669
- Actions are being taken to transfer to income.
- Actions should be taken according to the provisions of Financial Regulations.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2022 amounted to Rs. 41,822,978 as compared with the excess of revenue over recurrent expenditure amounted to Rs.36,053,271 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 Council, 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.                       |
| Rates and Taxes   | 9,596,000         | 9,968,458         | 4,022,859         | 20,669,938                | 9,933,500         | 9,933,500         | 3,225,342         | 20,474,787                |
| Rent              | 13,356,360        | 13,533,062        | 13,217,328        | 1,915,097                 | 13,989,150        | 11,487,096        | 8,773,146         | 3,413,471                 |
| License Fees      | 839,050           | 1,067,930         | 1,067,930         | -                         | 811,500           | 764,425           | 764,425           | -                         |
| Other revenue     | 26,392,149        | 37,217,803        | 36,049,302        | 2,190,906                 | 25,884,260        | 24,523,334        | 21,537,497        | 2,999,601                 |
|                   | <u>50,183,559</u> | <u>61,787,253</u> | <u>54,357,419</u> | <u>24,775,941</u>         | <u>50,618,410</u> | <u>46,708,355</u> | <u>34,300,410</u> | <u>26,887,859</u>         |

#### 2.2.2 Performance in Revenue Collection

##### Audit Observation

Arrears of rates and taxes of Rs. 20,669,938 had not been recovered from 7,747 rate and tax units for the period between 01 and 05 years. Also, rent arrears of Rs.1,500,999 had not been recovered for the period between 01 and 10 years.

##### Comment of the Council

Actions are being taken to recover the rates and taxes. The reply had not been given relating to rent.

##### Recommendation

Revenue should be collected without delay.

### **3. Operating Review**

#### **3.1 Operating Inefficiencies**

| <b>Audit Observation</b>                                                                                                                               | <b>Comment of the Council</b>                                              | <b>Recommendation</b>                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| The long-term rental agreements of 39 shops which have to be renewed once in 03 years had been implemented for the last 1 to 10 years without renewal. | That final notices had been sent on 31 March 2023 to renew the agreements. | Actions should be taken to renew the tenancy agreements at regular intervals. |

#### **3.2 Idle Assets and Equipments**

| <b>Audit Observation</b>                                                                                                                         | <b>Comment of the Council</b>                                                                   | <b>Recommendation</b>                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| 09 stalls constructed in the year 2013 on the upper floor of Pointpedro Modern market shopping complex for long term lease are unused up to now. | That requests had been made for the approval of the Honorable Governor to call for public bids. | Actions should be taken to fully utilize the sources of income of the council. |

#### **3.3 Assets Management**

| <b>Audit Observation</b>                                                                                                                                                                        | <b>Comment of the Council</b>                      | <b>Recommendation</b>                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------------|
| Contrary to the paragraph 1.1 of Finance Commission Circular No. 2016/01 dated 30 December 2015, 04 buildings had been constructed at a cost of Rs.36,604,935 on land not owned by the council. | Actions are being taken to obtain the title deeds. | Actions should be taken to take over the relevant lands. |

#### **3.4 Human Resources Management**

| <b>Audit Observation</b>                                                              | <b>Comment of the Council</b> | <b>Recommendation</b>                                                                          |
|---------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------------------|
| Employee loan balance due from 02 retired officers of 190,490 had not been recovered. | It is being settled.          | Outstanding loan balances should be recovered as per the provisions of the Establishment Code. |

#### **3.5 Vehicle Utilization**

| <b>Audit Observation</b>                                                         | <b>Comment of the Council</b>                                                                                                   | <b>Recommendation</b>             |
|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| A compactor purchased for Rs.6,221,373 remained unused for a period of 04 years. | Since this vehicle cannot be transported on small roads, it is currently to be used for removing garbage from suburban markets. | Assets should not be left unused. |