

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Ja-ela Urban Council for the year ended 31 December 2023 comprising the statement for assets and liabilities as at 31 December 2023 and statement of comprehensive income, statement of changes in assets/equity and cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information 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 the subsection 181(1) of Urban Councils Ordinance (255 Chapter) and the provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the financial statements of Ja-ela Urban Council. Because of the significance of the matters described in paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I expressed disclaimer of opinion on the matters described in paragraph 1.6 of this report.

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 the Local 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 Section 16(1) of 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 of the Council.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

My responsibility is to issue an auditor's report on the financial statements of urban council based on the audit carried out in compliance with Sri Lanka Auditing Standards. Because of the significance of the matters described in paragraph for basis for disclaimer of opinion, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Report on the other legal requirements

The special provisions had been inserted in the National Audit Act No.19 of 2018 in relation to the under-mentioned requirements.

- (a) The financial statements of the urban council are consistent with the preceding year as per the requirement of the section 6(1)(d)(iii) of the National Audit act No. 19 of 2018 .
- (b) The recommendations made by me except the observations in the paragraph 1.6 of this report as per the requirement indicated in the section 6(1)(d)(iv) of the National Audit act No. 19 of 2018 had been included in the financial statements forwarded.

1.6 Audit Observations on preparation of the Financial Statements

1.6.1 Non-Compliance with the Sri Lanka Public Sector Accounting Standards for the Local Authorities

Audit Observation	Comments of the Council	Recommendation
(a) As per No.3.28 of Standard and EG 6.2 of explanations and guidelines of its Appendix 02, the adjustment difference of Rs. 3,196,691 made to the cumulative fund for the errors in the preceding years in calculation of the cash flow from the operating activities had been overly deducted and an amount of Rs.13, 620,777 and Rs. 22,762,782 had been adjusted as depreciation and an investment income respectively.	The action will be taken to calculate in the next year as per Standards and explanations and guidelines of its Appendix.	The action should be taken as per Standard.
(b) As per No.3.29 of Standard and EG 6.3 of explanations and guidelines of its Appendix 02, an amount of Rs. 56,925,735, Rs.86, 142,921, and Rs. 2,914,450 had been overstated as purchase of property, plant and machineries, investment value in cash in the fixed deposits and the interest received from the fixed deposits in cash respectively in the calculation of the cash flow from the investment activities.	-Do-	-Do-
(c) As per 3.30 and EG 6.4 of explanations and guidelines of its Appendix 02, even though the capital expenses grant received in cash should be Rs. 13,816,894 in the year under review, an amount of Rs. 11,717 had been overstated as Rs. 13,828,611 in the calculation of the cash flow from the financial activities.	Do	Do

(d) As per EG 6.5 of explanations and guidelines of Appendix 02 for Standard, even though the balance of cash and cash equivalents at the end of year under cash and cash equivalents should be indicated as Rs. 42,330,279, it had been understated by Rs. 29796 as Rs.42, 300,483.	The action will be taken to calculate in the next year as per Standards and explanations and guidelines of its Appendix.	The action should be taken as per Standard.
(e) In accordance with Standard No.18.7 and the letter No. LGD/10A/4/U.A./2019 dated 01 February 2021 of Assistant Commissioner of Local Government, even though the all assets should be accounted after revaluation, 200 land parcels with the book value of Rs. 346,886, machineries and furniture and fittings had been identified and had not been re-valued.	In the preparation of the final account 2024, it will be accounted after re-valuation.	The all assets should be re-valued.
(f) As per Circular No. LGD/09/2019(1) dated 27 August 2020 of Local Government Commissioner, the formats for other notes L.G.23/1,23/2,23/3.23/4,and 23/5 had not been used for lands, buildings, vehicles and machines, thoroughfares, culverts and bridges and furniture/equipment respectively.	The steps will be taken to accurately prepare the final account 2024.	The relevant formats should be used.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The action had not been taken to capitalize the values of 405 roads out of 424 belonging to council.	The action will be taken to account as capitalized assets in 2024.	The all assets should be re-valued and accounted.
(b) The depreciation value of computer software of Rs. 2,211,768 had been adjusted to the cumulative fund as Rs. 1,639,893 from 2020 to 2022.	It couldn't be adjusted the depreciation by mistake. The action will be taken to rectify it in preparation of accounts 2024.	The action should be taken to account the depreciation having identified accurately.
(c) The building renovation expense of Rs. 2,419,500 had been capitalized under buildings work-in-progress in the year under review.	In future year, it will be rectified.	The action should be taken to accurately prepare the accounts.

(d)	The interest income of Rs. 8,265,605 received in relation to 2022 had been accounted as an income in the year under review.	Do	Do
(e)	Capital expense grant of Rs. 13,084,060 received in the year under review had been overstated by Rs. 744,551 as Rs. 13,828,611 in the statement for comprehensive income.	The action will be taken not to occur this fault again in the next years. .	The action should be taken to accurately prepare the accounts.
(f)	Even though the audit fee had been paid up to 31 December 2022, an amount of Rs. 2,378,139 allocated excessively for that had not been written off as creditors over provision.	The action will be taken to rectify it in preparation of the financial statements 2024.	Do
(g)	Instead of accounting an aggregate of Rs.3, 218,117 of 04 projects completed on 31 December 2023 as roads, bridges and culverts, An amount of Rs. 3,595,000 which was the aggregate estimated value of such projects had been accounted as work-in-progress.	The accounting errors occurred will be rectified.	Do
(h)	An amount of Rs. 8,700,000 which was the aggregate of 05 projects not completed had not been accounted as work-in-progress.	Since the approval of Hon. Governor of Western Province had not been granted up to 31.12.2023,it had not been included into the creditors.	Do
(i)	Instead of accounting an amount of Rs. 1,835,294 which was the aggregate related to 03 projects for roads development, it had been accounted as an expense in the year under review.	By mistake, it had been accounted as an expense in the year under review.	Do

1.6.3 Unreconciled Control Accounts or Reports

	Audit Observation	Comments of the council	Recommendation
(a)	A non-reconciliation of Rs.13, 501,502 had prevailed among 04 account balances including in the financial statements and related schedules in the year under review.	The action is being taken to rectify it.	The action should be taken to rectify it having found the reasons for difference.

- (b) In accordance with the schedules submitted with the financial statements as at 31 December 2023 and the documents in the council and reports obtained from computer software, non-reconciled difference of Rs. 3,919,204 had prevailed in 05 balances and Rs.3,043,520 in receivable shop rent. The receivable shop rent and stock difference had been rectified up to now. The control should be used not to occur differences.

1.6.4 Lack of Documentary Evidence for Audit

Subject	Amount Rs.	Audit Evidence not provided	Comments of the council	Recommendation
Property, plant and equipment	23,988,022	Detailed schedules	The action will be taken to adjust to the accounts in preparation of the accounts 2024	The relevant evidences should be submitted to the audit.

1.7 Non-Compliances

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

	Reference to laws, rules and regulations	Non-compliance	Comments of the council	Recommendation
(a)	Section 38(2) of Chapter VII of the National Audit Act No.19 of 2018	A copy of review to be carried out by the Chief Accounting Officer had not been submitted to the Auditor General in writing that an effective internal control is maintained for the financial control and the alterations required for carrying out the system in an effective manner having performed the review from time to time on the effectiveness of that system.	The action had been taken to implement in 2024.	The action should be taken as per relevant Act.
(b)	Rules 13 and 14 on Accounting related to Urban Councils Financial Administration and Financial Regulation 104 and 105	The action had not been taken in relation to the financial irregularity of Rs. 348,600 received from the sale of compost from December 2021 to 05 July 2023.	The action had been taken to charge the shortage occurred in cash.	The action should be taken as per relevant rules and regulations.

(c) **Financial Regulations of Democratic Socialist Republic of Sri Lanka**

I	F.R.571	Aggregate deposit exceeding 2 years with a value of Rs. 3,162,080 had not been settled.	The relevant divisions and subject officers had mentioned that the balance of Rs.3, 162,080 should be retained.	The action should be taken as per relevant regulations.
II	F.R.571(5)	An advance of Rs. 158,749 provided in 02 occasions in 2012 and 2015 had not been settled even up to 31 December 2023.	The approval had been granted to set off Rs.383,340.84 in cash and the necessary action is being taken in relation to Rs.5,000.00	Do
(d)	3.1 of Public Administration Circular 30/2016 dated 29 December 2016	A vehicle emission test had not been carried out with regard to 14 vehicles.	Presently, vehicle emission test is being carried out.	The action should be taken as per relevant circular.
(e)	Circular No. LGD/09/2019(1) dated 24 August 2020 of Local Government Commissioner	As indicated in L.G. 21/2 format, the limits of provincial public officers Advance B Account should be approved but this council had not taken steps to approve the limits of Advance Account.	In preparation of the budget for 2024, the limits had been included.	Do

2. **Financial Review**

2.1 **Financial Results**

In accordance with the financial statements submitted, the income exceeding the expenditure of the council was Rs. 142,785,008 for the year ended 31 December 2023 and correspondingly, the income exceeding the expenditure was Rs.25, 390,606 in the preceding year.

2.2 **Income Administration**

2.2.1 **Estimated Income, Billed Income, Collected Income and Outstanding Income**

As per the information submitted by the Secretary, the information on estimated income, billed income, collected income and outstanding income is as follows in relation to year under review and the preceding year.

Income Source	2023				2022			
	Estimated Income Rs. '000	Billed Income Rs. '000	Collected Income Rs. '000	Total Outstanding as at 31 December Rs. '000	Estimated Income Rs. '000	Billed Income Rs. '000	Collected Income Rs. '000	Total Outstanding as at 31 December Rs. '000
(i) Assessment Tax and other Tax	48,802	48,635	36,325	12,310	46,330	46,185	38,687	54,320
(ii) Rents	19,606	20,494	13,343	7,151	22,597	17,666	21,143	13,655
(iii) License Fees	3,203	1,241	1,241	-	1,200	443	482	(39)
(iv) Other Income	117,104	-	117,104	-	93,409	18,773	18,868	(96)
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	188,715	70,370	168,013	19,461	163,536	83,067	79,180	67,840
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2.2.2 Income Collection Performance

	Audit Observation	Comments of the Council	Recommendation
(a)	Even though the estimated other income was Rs. 117,104,000 in the year under review, no money had been billed within the year.	It is not billed for the services provided on the requirement of the client and the collected income is the billed income.	Having identified the income to be billed, the action should be taken to bill.
(b)	The outstanding business tax, industry tax and trade licenses with regard to 46 units was Rs.79, 000 up to 25 September 2023.	The licenses had been given to 11 business places having charged the outstanding money.	Do

- (c) The advertising fees of Rs.108, 000 had not been charged with regard to 27 incidents on which the fees had been calculated by Revenue Inspector. It had been filed in another file by a mistake and the all action had been taken to charge the all fees. Do

3. Operating Review

3.1 Discharging the functions entrusted by the Act

The facts observed on the regularization and control of public health, public utilities services and public thoroughfares under section 4 of Urban Councils Ordinance and carrying out the activities such as well-being, convenience and welfare to be performed by council are as follows.

Audit Observation	Comments of the council	Recommendation
(a) By-laws	In terms of section 153 of Urban Councils Ordinance, even though the by-laws which had not complied with the provisions of the Act can be made from time to time and the by-laws can be made for maintenance of public and private shopping places and fairs, charging fees and allocation in terms of section 157 (II) no by-laws had been prepared for regularization and regulation for lease of shops.	The future action will be taken to prepare the by-laws. The by-laws should be prepared.
(b) People's Representations	02 public complaints and 04 public complaints on dangerous trees and unauthorized structures received from the public complaints in 2023 had not been settled even up to 19 September 2023.	The answers had not been given. The solutions should be promptly given.
(c) Environmental Issues	I Since the non-degradable waste is informally disposed to the land in extent of 11 acres 1 rood 19.20 perches belonging to council located in Suduwella and maintained the compost yard by council, it was observed that the water retains in the rainy season and the animals roam in that land and it was a threat to the public health and environment.	Do The attention should be paid to the public health.

II	In accordance with the gazette notification No.2264/18 dated 27 January 2022, no survey had been carried out by council in relation to 2023 for identification of the institutes on which the environmental licenses should be given and the environment license had been issued to 01 institute out of 06 on which it had been identified to issue environmental license.	Do	A proper regulation should be carried out on the institutes on which the licenses should be obtained.
III	Even though environmental licenses issued to 06 institutes had expired, no new license had been issued for such institutes again.	The answers had not been given.	The solution should be given as far as possible.
IV	The environmental licenses had not been issued for 09 institutes on which the licenses should be issued by Environment License Committee held in 2019, 2021 and 2023.	The answers had not been given.	The solution should be given as far as possible.

3.2 Management Inefficiencies

	Audit Observation	Comments of the council	Recommendation
(a)	The old fees more than 07 years are charged without amendment of fees for cremations and burials and the services had been delivered on the request letters without issuance of an application and a certification of an officer in council.	The answers had not been given.	The action should be taken to obtain request letters in formal manner.
(b)	A formal document on the usage of gas in crematorium had not been maintained by the curator.	Do	The documents should be formally maintained.
(c)	No action was taken to settle 26 creditor balances of Rs. 1,901,097 which had existed from 2012 to 2021.	Do	The steps should be taken to settle the balances.

3.3 Operating Inefficiencies

	Audit Observation	Comments of the council	Recommendation
(a)	22 small business shops at St.Maria Road belonging to council had been leased and no agreements had been signed in relation to 16 shops. Similarly, no action had been taken with regard to 03 shops sub leased as per the agreement.	No answers had been given.	It should be properly entered into agreements.

(b) Even though new shops valuation had been obtained for 16 new open stalls in the public market in 2021, no agreements had been entered on such new shop valuation. Similarly, no action had been taken in accordance with condition 25 in the agreement in relation to 06 shops sub-leased.	Do	The action should be taken as per the conditions of the agreement.
(c) The following facts were observed in relation to rent of 105 shops in the public market.		
i In accordance with condition No.25 in the agreements related to shops, if lessee cannot sell in the shop, the own lease should be ended by revoking the agreement having informed it to the council before 01 calendar month. No action had been taken by council in relation to sub lease of 39 shops by lessees.	The answers had not been given.	The action should be taken to take over the shops as per the agreement.
ii No step was taken to lease again 07 shops taken over to the council.	Do	The steps should be taken to lease the shops.
iii No action was taken to renew the agreements again with regard to 96 shops.	Do	The agreements should be renewed.
iv No action was taken to recover outstanding rent of Rs. 5,379,493 which had been outstanding from 01 month to 29 months or take measures as per conditions No.03 and 33 in the lease agreement.	Do	The action should be taken as per agreement.
(d) The under-mentioned facts were observed in the audit in relation to lease of 54 shops in new shopping complex.		
i No action was taken to enter into new agreements by indicating a specified period of time for 35 shops on which the valid period of time had not been shown specifically and date of commencement of agreement had been indicated.	The answers had not been given.	The action should be taken to renew the agreements.
ii As per the information submitted to the audit, the lease agreements of 11 shops on which the agreement had ended had not been renewed.	Do	-Do-
iii No action had been taken to recover of outstanding rent of Rs.480, 003 related to 12 shops for a time frame from 01 month to 83 months and non-identification of how many outstanding months related to 02 shops.	Do	The action should be taken to recover the outstanding rent.

iv	It had been observed that 02 shops in the ground floor and 21 shops in the first floor had been closed without opening since long time at the site inspection of audit.	The answers had not been given.	The action should be taken to take over the business which the businesses are not carried out.
(e)	The following facts had been observed in relation to lease 51 plots of land in the public market belonging to council and charge the rents.		
i	No action had been taken to lease 11 plots of land taken over after tendering again.	The answers had not been given.	The action should be taken to lease again.
ii	It had been observed that 08 plots of land had been sub-leased.	The answers had not been given.	The action should be taken to take over again as per the agreement.
iii	No action had been taken by council to renew the lease agreement again in relation to 12 plots of land on which the lease agreement had expired more than 25-30 years and 02 plots of land on which the lease agreement had expired in 2021.	Do	The lease agreement should be renewed.
iv	With regard to 23 plots of land, outstanding monthly rental of Rs.139, 853 had not recovered for a period from 01 month to 43 months.	Do	The action should be taken to recover the outstanding.
(f)	10 public market open shops out of 23 had been given on sub-lease basis and no action had been taken to enter into agreement again for 21 open shops on which the date of end of agreement had not been mentioned in the agreement and one open shop on which an agreement had not been entered with lessee. Furthermore, no step had been taken to recover outstanding rent of Rs. 264,632 for 14 shops for a period from 01 month to 46 months.	Do	The action should be taken to enter into agreements and recover outstanding rents.
(g)	The valuation amounts sent by the Department of Valuation in 2018 had exceeded the relevant validity periods and no action had been taken to obtain a new valuation for public market shops, shops in new shopping complex and plots of land in the public market.	The action had been taken to obtain new valuation for the shops.	The action should be taken to take valuations on the stipulated time.

3.4 Assets Management

Audit Observation	Comments of the council	Recommendation
(a) In terms of Financial Regulations 757(2), 760 and 102, no action had been taken in relation to discrepancies, shortages and losses identified as per board of survey in 2022.	The answers had not been given.	The action should be taken as per Financial Regulations.
(b) Even though in terms of Financial Regulation 103(1) (C), the responsible persons should be determined after conducting a formal investigation, the shortage value of Rs. 182,144 had been recovered from lady officer having physically inspected the stores goods.	The answers had not been given.	The steps should be taken as per Financial Regulations and the information should be accurately submitted.
(c) As per register for losses and damages, no action had been taken to conduct a formal inquiry or obtain a statement from any officer in relation to Rs. 391,882 which was the aggregate of losses and damages in 2022 for 06 damages and losses out of 07 incidents and the losses had not been recovered from relevant officers after conducting a formal inquiry for aggregate of Rs. 528,944 for 02 incidents with regard to 2023.	Do	The action should be taken to indemnify the relevant losses after conducting a formal inquiry.
(d) On 16 September 2023, the misplacement of 02 batteries of Tipper No.LL-6408 had not been indicated in the register for losses and damages submitted for the audit and it had been decided to recover an amount of Rs. 138,300 from security services company without a formal inquiry.	Do	The action should be taken to recover the relevant losses after conducting a formal inquiry.
(e) No preliminary reports and full reports had been prepared in relation to a damage or loss as per Financial Regulations 104(1) (a), F.R.104 (2) and F.R.104 (4).	Do	The reports should be prepared as per the Financial Regulations.

3.5 Procurement Management

Audit Observation	Comments of the council	Recommendation
(a) Contrary to the guidelines 1.2.1(c), 5.6.1(a), 2.4.1, 2.4.1(a), 2.3.2(b), 2.3.2(c), 2.6.1(a)(i), (ii), (iv), 4.2.2(a), 4.3.1(a) of the Government Procurement Guidelines 2006, an amount of Rs. 9,387,500 had been paid to purchase 09 software systems for the computerization of the activities of urban councils and stocks and stores management software and salaries management software system had not been in operative level even up to 25 September 2023 which was the date of audit. The payments of Rs. 655,000 and Rs.865, 000 made for that had become an idle expense.	The answers had not been given.	The action should be taken as per the guideline and the action should be taken to properly identify the software requirements of the council and obtain them.
(b) Contrary to 1.2.1(b), 2.1.2(a), 2.4.1, 2.4.1(a), 2.3.2(b), 2.3.2(c), 2.6.1(a)(i), (ii), 4.2.2(a), 4.3.1(a) and 5.6.1(a) of the Government procurement Guidelines 2006, an amount of Rs. 3,595,000 had been paid for the implementation of the third phase of purchase of online payment input and an irregular payment of Rs. 898,750 had been observed by payment of total amount without retaining the value of 25 percent and not providing the training. An amount of Rs.3, 595,000 incurred had been an idle expense since the relevant activities had not been carried out by using the software even up to 25 September 2023 which was the date of audit.	The answers had not been given.	The action should be taken as per the guideline and the steps should be taken as per the agreement.

3.6 Human Resource Management

Audit Observation	Comments of the council	Recommendation
As at 31 December 2023, the approved cadre of Jaela Urban council was 141 and the actual cadre was 111 on that date. Accordingly, there were 30 vacancies.	No answers had been given.	The action should be taken to manage the cadre enabling to carry out the functions of the council efficiently.

4. Accountability and Good Governance

4.1 Audit Committee

Audit Observation

In terms of Management and Audit Circular No. DMA/2009(1) (I) (dated 28 January 2016, only 02 Audit and Management Committee meetings had been conducted by council in the year under review.

Comments of Recommendation council

No answers had been given.

The action should be taken to conduct the meetings as per the circular.