

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Minuwangoda Urban Council for the year ended 31 December 2023 comprising the statement for assets and liabilities as at 31 December 2023 and statement for comprehensive income, statement of changes in net 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 subsection 181(1) of the Urban Councils Ordinance (Chapter 255) 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.

In my opinion, owing to the importance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Minuwangoda Urban Council as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Adverse Opinion

My opinion is adverse based on 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 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 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 urban council.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 judgement and maintain professional scepticism throughout the audit. I also

- Appropriate audit procedure 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
- 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 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 discussions 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 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 in the preceding year 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 Observation in relation to the Financial Statements

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

	Non-compliance with reference to relevant Standard	Comments of the council	Recommendation
(a)	As per No.3.28 of Standard and EG 6.2 of explanations and guidelines of Appendix 02, long-term loan purchase cost of Rs.259, 512 had not been readjusted in the adjustments to be carried out for the surplus in the year under review in the calculation of the cash flows from the operating activities and it had not been revealed what an adjustment of Rs.3, 892,404.	Accepted.	The cash flow should be prepared as per the standard.
(b)	As per No.3.29 of Standard and EG 6.3 of explanations and guidelines of Appendix 2, it had not been indicated an investment of Rs.27, 000,000 made in cash in the fixed deposits in the calculation of the cash flows from the investing activities and the interest received had been understated by Rs.5, 424,917 within the year.	The action will be taken to rectify and submit with the final accounts as at 31.12.2024.	The cash flows should be prepared with the standards.

- (c) As per No.3.30 of Standard and EG 6.4 of explanations and guidelines of Appendix 2, receivable capital expenditure grant of Rs. 2,588,613 had been shown as capital grants received in the calculation of the cash flows from the financial activities and the interest of Rs. 218,223 paid for the long-term loans had not been mentioned. It had been noted to accurately account in the financial statement as at 31.12.2024. The cash flow statement should be prepared as per the Standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the council	Recommendation
(a) The gully bowser fees of Rs.323, 990 received from 2020 to 2022 and Rs.1, 735,640 received related to the year under review had been credited to mix deposit account instead of accounting as income in the preceding years and in the year under review.	Accepted.	It should be accurately accounted.
(b) The new shops pre-payment income of Rs. 19,200,000 and Rs.11, 497,500 received related to 2022 and 2023 had been credited to mix deposit account instead of accounting as income in the preceding year and in the year under review.	-Do-	-Do-
(c) The fixed deposit interest income of Rs.5, 445,455 had been understated in the year under review.	-Do-	-Do-
(d) As at 31 December in the year under review, fixed deposit balance of Rs.32, 424,917 had been understated.	-Do-	-Do-
(e) The capital expenditure grants of Rs.100, 166,260 received in the year under review under other comprehensive income in the comprehensive income statement had been overstated.	-Do-	-Do-
(f) An allocation of Rs.1, 712,174 had been made for the payable provisions for 08 projects on which the payments had been completed as at 31 December 2023.	-Do-	-Do-

1.6.3 Unreconciled Control Accounts or Reports

Audit Observation	Comment of the council	Recommendation
An unreconciled difference of Rs.74, 263,303 had prevailed between the balances of 14 account subjects as per the financial statements and the total of the schedules as at 31 December in the year under review.	Answers had not been given.	It should be rectified having found out the reasons for difference.

1.6.4 Lack of Documentary Evidence for Audit

Subject	Amount Rs.	Audit Evidence not provided	Comments of the council	Recommendation
(a) Outstanding market fees	416,610	Detailed Schedules	It should be submitted with the financial statements for the year ended 31.12.2024.	The action will be taken to accurately submit the schedules.
(b) Direct bank remittances balance as at 30/11/2023	2,257,242	Detailed Schedules	-Do-	-Do-
(c) Fittings	4,275,353	Detailed Schedules	-Do-	-Do-
(d) Computer Software	70,849	Detailed Schedules	-Do-	-Do-
(e) Roads and culverts	51,210,447	Detailed Schedules	-Do-	-Do-
(f) Long-term loan interest	671,591	Confirmation letters	-Do-	-Do-

1.7 Non-Compliances

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

The incidents in which it had not been complied with laws, rules, regulations and management decisions are as follows.

	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.	A copy of written review will be submitted to the Auditor General since 2024.	The action should be taken as per relevant Act.
(b)	Rules 322 on Accounting related to Financial Administration of Urban council	Contrary to the provisions of Rule, a tender committee had been appointed consisting with the Chairman, Vice Chairman and 05 members for renting 04 shops.	The bids are annually called having appointed the tender committee at this time.	The action should be taken as per relevant Rule.
(c)	Financial Regulations 104(3),110 of Democratic Socialist Republic of Sri Lanka	Owing to set fire the Chairman's house on the aggressive situation prevailed in the country on 09 May 2022, no action had been taken to recover the loss of Rs. 311,390 for the destruction of laptop; dongle and pen drives provided for the official use having identified the responsible persons and submit a report on the loss.	The letter had been submitted to the office of Local Government Assistant Commissioner with the preliminary report.	The action should be taken as per relevant Financial Regulations.

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| (d) | 9.1 of Chapter VIII of the Establishments Code of Democratic Socialist Republic of Sri Lanka | An amount of Rs.121, 827 had been paid as holiday pay to an acting officer without a formal appointment from September 2022 to July 2023. | Such approval had not been received up to now. | It should be complied with the relevant chapter. |
| (e) | Public Administration circular 09/2009(I) dated 17 June 2009 | The acting Secretary had kept the arrival and departure in the finger print machine only for 90 days out of 141 working days from January 2023 to July. | Acting Secretary had maintained the register for arrival and departure. | The action should be taken as per relevant circular. |
| (f) | Local Government Department Circular LGD/13/2016 dated 09 November 2016 | A rent income of approximately Rs. 2,510, 400 had lost for 04 years when comparing with the new assessment values of shops at Sanasa Freedom Park Shopping Complex owing to elapse of 07 years for new assessment from the assessments in 2015. | It had been planned to obtain the government valuation for the shops belonging to the council once in 03 years and implement such valuations. | -Do- |

2. Financial Review

2.1 Financial Results

As per the financial statements submitted, the income exceeding the expenditure was Rs. 13,239,491 for the year ended 31 December 2023 and correspondingly, the income exceeding the expenditure of the council was Rs. 26,580,197 in the preceding year.

2.2 Income Administration

2.2.1 Estimate 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 related to the year under review and the preceding year is as follows.

Income Source	2023				2022			
	Estimated Income	Billed Income	Collected Income	Total Outstanding as at 31 December	Estimated Income	Billed Income	Collected Income	Total outstanding as at 31 December
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assessment Tax and other tax	20,751	20,346	16,900	13,351	20,515	20,474	14,319	14,577
Rents	67,006	22,417	21,298	2,657	40,675	29,640	27,326	2,370
License Fees	901	367	442	16	846	723	686	37
Other Income	31,525	11,610	11,610	-	24,925	31,957	31,957	-
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	120,183	54,740	50,250	16,024	86,961	82,794	74,288	16,984
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2.2.2 Income collection performance

The observations on the performance of the collection of income of the council are as follows.

	Audit Observation	Comments of the council	Recommendation
	Assessment Tax		
(a)	Up to 31 December 2023, aggregate outstanding Assessment Tax of Rs. 3,236,036 of 32 rates units more than Rs.50,000 prevailed from 01 year to 08 years.	The outstanding had reduced from 30.09.2023 to 31.12.2023 and it had been amended after reducing the outstanding up to 31.12.2023.	The action should be taken to recover the outstanding.
(b)	The remaining Assessment Tax outstanding was Rs. 9,090,211 and it had not been revealed that the action had been taken to recover the outstanding balance of Rs. 4,300,436 more than 05 years or seize the property by the council.	The charge of income was in a low level and an outstanding amount of Rs. 635,322 had been recovered to the council having seized the property.	The action should be taken to recover the outstanding income.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) In accordance with the part “d” of the gazette notification No.2264/18 dated 27 January 2022, the action had not been taken to issue the environmental licenses for 05 identified institutes on which the environmental licenses should be obtained as per the survey report 2023 up to 01 September 2023 which was the date of audit and the identification of the all institutes to be obtained the environmental license had not been completed also.	The survey related to 2023 had not been completed even up to 01.09.2023 and presently, it had been ended.	The surveys should be carried out to identify the all institutes on which the environmental licenses should be obtained.
(b) In accordance with 164(4) of the Urban Councils Ordinance, 33 institutes without trade license and 69 institutes which had not paid the business tax and industry tax up to 31 December 2023 were carrying out business contrary to section 164.	The action had been taken to recover up to 31 January 2024 having identified 05 institutes which had not paid trade licenses as identifiable institutes by Revenue Inspector.	The action should be taken as per the relevant section of Urban Councils ordinance.
(c) With regard to 02 institutes, the fees had not been paid for 08 advertising boards out of 17.	The action is being taken to recover the fees for the year 2024 in the future.	The fees should be charged having performed the survey accurately.

3.2 Operating Inefficiencies

Audit Observation	Comments of the council	Recommendation
Even though 10 shops had been temporarily constructed in the vehicle park located at the beginning of Newham road belonging to council by the lessee to whom the park had been given on lease basis in 2019 and given to others on lease basis for a period of 03 years since 2020, the action had not been taken against it as per the agreement.	Since the approval of Governor had been granted only for 03 years for renting the shops, the facts on entering into agreements had been stopped temporarily on conflicting situation arisen on entering into agreements again.	The action should be taken as per agreements.

3.3 Procurement Management

Audit Observation	Comments of the council	Recommendation
<p>It had been revealed that the price of the Jim carpet 2'x 2' (10mm) was Rs.4, 950 as per the quotations provided by the institute selected for the purchase of the Jim carpet for the fitness centre of the urban council and an amount of Rs.1, 170,290 had been paid to such institute by the council for 1063.9 square feet by Rs.1, 100 for each square foot. However, since the price of 01 square foot was Rs.792 as per the written quotations from such institute by the audit, it was observed that an amount of Rs. 327,681 had been overpaid for 1063.9 square feet by Rs.308 for 01 square foot.(Rs.1100-Rs.792)</p>	<p>The quotations given by the supplier parties had been opened on 07.03.2023. After that, it is problematic to overpay the council on the alteration of the prices provided by them.</p>	<p>The action should be taken as per the procurement guidelines.</p>

3.4 Human Resources Management

Audit Observation	Comments of the council	Recommendation
<p>The action had not been taken recover an amount of Rs.617,521 at the closing dated of the year under review from the officers who had been transferred to outside from urban council, Rs.270,644 to be recovered from the deceased officers, Rs.153,339 to be recovered from a retired officer and it had not been mentioned how long the balance exists, Rs.177,135 to be recovered from an officer interdicted in 2022 and Rs.336,054 to be recovered from 03 officers who had been vacated the post within the year under review.</p>	<p>The outstanding amounts are being recovered.</p>	<p>The outstanding loan balance should be recovered.</p>