

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Peliyagoda Urban Council for the year ended 31 December 2023 comprising the statement of financial position 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.

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 Paliyagoda 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 the Local Authorities.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 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
- 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 Urban 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 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 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.

- 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 .
- 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 Observations on the preparation of the Financial Statements

1.6.1 Non-compliance with the Sri Lanka Public Sector Accounting Standards For the Local Authorities

Non-compliance with the reference to the relevant standard	Comments of the Council	Recommendation
(a) As per Chapter 3.28 and EG 6.2 of clarifications and guidelines of Appendix 2 of it, the depreciation expense of Rs.4,951,266 adjusted to the comprehensive income of the year under review had been understated and the transfers from the government for non-recurrent expenditure of Rs.17,872,279 had been overstated and the investment interest income of Rs. 4,759,339 had been overstated and the decrease of the current assets of Rs.59,245,728 had not been adjusted in the calculation of the cash flow from the operating activities.	The action will be taken to accurately prepare in the future accounting year.	It should be accurately prepared.

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| (b) | In accordance with Chapter 3.29 of Standard and EG 6.3 of the detailed explanations and the guidelines, the cash investment value of Rs. 20,314,419 for property, plants and equipment had been overstated and the aggregate of Rs. 21,993,414 had been understated under the investment activities and the investment income of Rs.8, 311,790 received in cash had been understated in calculation of the cash flow received in the investment activities. | -Do- | -Do- |
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1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recomm endation
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(a) The capital grants of Rs. 8,447,074 received from 2015 to 2021 had been credited to the deposit account instead of capital grant account.	The action will be taken to rectify in 2024.	It should be accurately accounted.
(b) The expense of Rs.2, 000,000 of vehicle yard on which the work had been commenced in the year under review but not completed had not been accounted having identified as work in progress and it had not been rectified through the amended account also.	It had been rectified through the amended account 2023.	-Do-
(c) As per the information given to the audit, it had been informed that the value of 120 roads belonging to sabha will be accurately accounted as assets through the amended account, value of only 13 roads had been accounted as assets as at 21 December 2023.	-Do-	-Do-
(d) In the year under review, the total income had been overstated by Rs. 4, 079,668 as the salary reimbursement of Rs. 44,487,072 had been taken as Rs. 48,561,740.	Verbally accepted.	-Do-

1.6.3 Unreconciled Control Accounts or Reports

Audit Observation	Comments of the Council	Recommendation
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An unreconciled difference of Rs. 10,057,591 had prevailed between the total of the schedules submitted with the financial statements in the year under review and the balances of 08 accounts in the financial statements.	It will be rectified in 2024.	The action should be taken to rectify the accounts having reconciled the differences in the relevant accounts.

1.6.4 Lack of Documentary Evidence for Audit

	Subject	Amount Rs.	Audit Evidence not provided	Comments of the Council	Recommendation
(a)	Debtors	4,216,270	Registers and Schedules	Even though it had been informed that the schedules had been submitted for the debtors, it had been verbally accepted that those had not been submitted.	The action should be taken to submit the relevant schedule.
(b)	Petty Cash	11,503	Age analysis Registers and Schedules	The action will be taken to accurately submit the schedules and age analysis in the next year.	-Do-
(c)	No pay leave	14,000	-Do-	-Do-	-Do-
(d)	Property loan interest reimbursement	233,703	-Do-	-Do-	-Do-
(e)	Furniture and equipment and depreciation for machines	1,126,128	Schedule	-Do-	-Do-

1.7 Non-Compliances

1.7.1 Non-Compliance with laws, rules, regulations and the management decisions

	Reference to laws ,rules, regulations	Non-Compliance	Comments of the Council	Recommendation
(a)	National Audit Act No.19 of 2018 Section 38(2) of Chapter VII	A copy of review to be carried out by the Chief Accounting Officer had not been submitted to the	A copy audit plan related to 2024 will be	The action should be taken in terms

		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.	submitted.	of the relevant Act.
(b)	Financial Regulations 571	The deposit exceeding 02 years totalled Rs.11, 812,964 had not been settled.	The steps will be promptly taken to settle.	The action should be taken as per relevant regulation.
(c)	Gazette Notification No.2264/18 dated 27 January 2022	07 institutions had functioned without environmental licenses.	The action will be taken to issue environmental protection licenses to the institutions up to May.	The steps should be taken as per relevant gazette notification.

2. Financial Review

2.1 Financial Results

In accordance with the financial statements submitted, the expenditure of the council exceeding the income was Rs. 38,021,625 for the year ended 31 December 2023 and correspondingly, the income exceeding the expenditure in the preceding year was Rs.33, 099,357.

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	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 taxes	51,010	48,332	46,105	21,750	51,000	50,880	52,647	29,084
Rents	5,685	2,197	4,415	2,265	4,875	2,125	5,060	2,176
License fees	3,700	2,010	4,051	63	3,400	1,636	3,459	65
Other income	24,746	-	39,466	-	30,424	-	74,221	235
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	85,141	52,539	94,037	24,078	89,699	54,641	135,387	31,560
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3. Operating Review

3.1 Discharging the functions entrusted by the Act

	Audit Observation	Comments of the council	Recommendation
(a)	By-laws		
(I)	Even though it had been informed by the Secretary to the audit that the by-laws are not necessary for rent the shops, by-laws had not been prepared for rent the shops as per 157(6)(c) of Urban Councils Ordinance.	It is not necessary by-laws to rent the shops.	The action should be taken in terms of Ordinance.
(II)	The by-laws had not been prepared and published in the gazette notification in relation to charge the relevant fees with regard to reserve the community hall annually.	In the future, by-laws will be prepared.	The action should be taken to prepare the by-laws.
(b)	People's Representations		
	03 public complaints received in 2023 had not been resolved.	The instructions had been given on the measures to be followed.	The action should be immediately taken to resolve.

3.2 Uneconomic Transactions

Audit Observation	Comments of the council	Recommendation
An amount of Rs.10,204,180 incurred for the public toilet system at 4 th post in a land belonging to Department of Railway and no ownership to the council was an irregular transaction and even though the public toilet facilities should be provided as necessary in the places where the people roam in terms of section 110(b) of urban Councils Ordinance, the expense for construction of large toilet system with 03 male toilets, 03 female toilets, 02 disabled toilets and 02 male and female bathing places in a place where people do not roam was an idle expense.	It is expected to provide the service by controlling through urban council without a tender award for obtaining considerable income in the future.	The action should be taken to ensure the title before implementation of the projects.

3.3 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In accordance with the survey reports in 2023, even though the environmental licenses should be obtained by institutes which should obtain should not obtain an environmental license for charge of business tax and license fee , institutes which had not fulfilled the qualifications had not been listed.	In accordance with the trade license information obtained from Revenue Inspector, the action had been taken to give environmental licenses to the institutions which had fulfilled the qualifications having documented and noted only the institutes which should obtain environmental license.	The action should be taken to list the institutes which should obtain environmental license.
(b) The survey list had not been prepared for 2023 having included the information as per rules 293 and 294 on accounts related to Urban Council Financial Administration.	The action will be taken to include such all information into business survey report 2024.	The action should be taken to include all information into the survey report.

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| (c) | Gully bowser service fees had not been gazetted for 2023. | The future action will be taken having prepared by-laws in the future. | The future action should be taken having prepared by-laws. |
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3.4 Operating Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) On contrary to Rules 408(iii) on accounts in relation to Urban Councils Financial Administration and Circular No. LGD/13/2016(1) dated 03 December 2020 of Local Government Commissioner of Western Province, monthly rent had been charged since 01 May 2018 in accordance with the assessment dated 29 June 2017 for 34 shops belonging to the council.	It had been decided by the council that the action will be taken to charge the monthly rental having implemented the new assessment.	The action should be taken to assess in the specified time.
(b) On contrary to Rules 408(iii) and (iv) on accounts in relation to Urban Councils Financial Administration and Circular No. LGD/13/2016(1) dated 03 December 2020 of Local Government Commissioner of Western Province, the action had been taken related to 22 shops and those had been leased by new agreement and without agreement to such lessee or his dependants or sub lessee without procurement process even after end of the period of contract.	After taking into account the condition of the shops and the lessees, the all outstanding money had been recovered and the entering into agreements had been legally completed having sub leased to sub lessees as per circulars and conditions in the prevailed agreements.	The action should be taken to lease having followed the procurement process.

3.5 Assets Management

Audit Observation	Comments of the council	Recommendation
As per Financial Regulation 103(1)(b), it had not been reported to the police about sudden accident occurred to GY-9334 on 06 February 2023 and a preliminary report and full report had not been submitted as per the Financial Regulations 104(3) and 104(4) respectively by initiating an inquiry as per Financial Regulations 104(1)(a).	The full amount incurred in accordance with the quotations obtained from the garages in relation to the accident will be given by the Insurance Corporation and since other additional amount is not incurred by council in relation to that, no report had been submitted on this matter.	The action should be taken as per Financial Regulations.

3.6 Procurement Management

Audit Observation	Comments of the council	Recommendation
(a) The following facts had been observed at the inspection on the agreement entered on 30 November 2020 with a private company for freely obtaining the software systems for management of office functions.		
(I) No identification had been carried out on the specifications of the software systems suitably to the requirement of the functions.	A letter including the details on software had been provided by relevant institute.	The identification of the specifications should be carried out.
(II) Even though providing of services should be freely performed within first year as per agreement, an amount of Rs. 140,000 had been paid as service fee on 02 March 2021 for 2021 and an amount of Rs. 140,000 had been paid for 2022 and 2023.	The letter given by relevant institute on 06.11.2020 had been revised on 30.11.2020 and the payments had been made accordingly.	The action should be taken as per the agreements.
(b) An amount of Rs. 1,200,000 had been paid in 2022 for purchase of voucher and cheques management software and management of all accounts software. Even though the specifications had been given for this, the specifications of the institutes which had submitted the quotations had not been reconciled by the Technical Evaluation Committee and only minimum price had been	A proposed agreement had been sent by relevant institute and the council had no 100 percent concurrence for that. After discussion, a new agreement had been signed on 30.11.2020.	Having made reconciliation among the specifications, the suitable institute should be selected.

considered. Similarly, no agreement had been entered into with the private company having included the conditions for implementation the software after purchase.

3.7 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
<p>Since there were 02 vacancies in senior level, 09 vacancies in 05 posts in secondary level As per the approved and 25 vacancies in 08 posts in primary level as per the actual and approved cadre of the Council as at 31 December 2023, it had affected to the efficiency of the functions of the council.</p>	<p>There were 02 posts in senior level in which Secretary and Accountant posts exist and the Administrative Officer acts and assumes duties in the post of Secretary and though the post of Accountant had been vacant since 01.01.2013 when the cadre had been approved, a Management service officer who had passed Accountancy Higher Diploma and with accounting knowledge assumed the duties in the post of Accountant.</p>	<p>The action should be taken to fill the vacancies.</p>