

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of Wattala Mabola Urban Council for the year ended 31 December 2023 comprising the statement of assets and liabilities as at 31 December 2023 and the statement of 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 (Cap. 255), and 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, because of the significance of the matters described in the Paragraph 1.6 of this report, the financial statements of the Urban Council do not give a true and fair view of the financial position of the as at 31 December 2023 and its financial performance, and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Adverse Opinion

I express an adverse opinion on the financial statements based on the matters set out in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 Standard for Local Authorities, 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 financial reporting process of the Urban Council.

As per 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 of the Urban Council.

1.4 Audit Scope (Auditor's Responsibility 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 judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to 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 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Urban Council presented are consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented include 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

1.6.1 Non-compliance with the Sri Lanka Public Sector Accounting Standard for Local Authorities

	Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
(a)	As per Chapter No. 3.28 of the Standard and as per EG 6.2 of the Explanations and Guidelines in Appendix 2 of the Standard, what adjustments were made for the amount totalling to Rs.4,212,860 had not been indicated in re-adjusting the non-financial transactions, which had been adjusted to the statement of comprehensive income in the calculation of the cash flow from operating activities. Moreover, Rs.2,589,096 as interest income, and Rs.14,722,770 as depreciation and Rs.841,355 as capital expenditure grants recognized in surplus/deficit had been adjusted as operational activities and the loss on sale of assets amounting to Rs.446,975 and the financial cost amounting to Rs.2,589,096 had not been adjusted.	It will be corrected in the preparation of the cash flow for the year 2024.	Cash flow should be prepared according to the Standard.
(b)	Although the purchase of 6 categories of property, plant and equipment had been Rs.18,458,220 in the calculation of the cash flow from investment activities as per Chapter No. 3.29 of the Standard and as per EG 6.3 of the Explanations and Guidelines in Appendix 2 of the Standard, a sum of Rs.39,972,031 had been adjusted as purchases of property, plant and equipment. Moreover, Rs.34,211,435 had been indicated as sales and only Rs.2,589,096 had been indicated as interest income in the elimination of property, plant and equipment.	-Do-	-Do-

- (c) As per Chapter No. 3.30 of the Standard and as per EG 6.4 of the Explanations and Guidelines in Appendix 2 of the Standard, a sum of Rs.8,022,994 had been indicated by including donations received in goods as capital grants received in cash in the calculation of the cash flow from the financial activities, and a sum of Rs.2,157,580 paid in cash as financial costs had not been indicated. -Do- -Do-

1.6.2 Accounting Deficiencies

Audit observation	Comments of the Council	Recommendation
(a) The warehouse issues amounting to Rs.627,731 in the year under review had been accounted by creating a false creditor under the name of warehouse expenses instead of crediting to the warehouse stock account as an expense.	I will correct it in the preparation of accounts for the year 2024.	Should be accurately accounted.
(b) Despite the Ministry had informed that payments could not be made due to the failure of quality control reports for compressive strength in relation to 3 projects carried out under the Rural Road Development Programme - 2021, Rs. 5,000,000, which had been accounted as capital grants and capital grants receivable, had not been written off. Due to this, the capital grants and capital grants receivable had been overstated by that amount and the creditor and work in progress account balances had also been overstated by that value.	As it was presented for calculating the compressive strength again, it was not written off and retained.	-Do-
(c) Creditor over-allocation and capital grants receivable amounting to Rs.2,566,045 allocated for 2 projects completed under the Rural Road Development Project in the year 2021 had been indicated in the financial statements as at 31 December of the year under review.	I will correct it in preparing accounts for the year 2024.	-Do-

- (d) The total cost of 6 development projects constructed in the year under review amounting to Rs.4,750,837 had been adjusted as an expense in the statement of comprehensive income instead of capitalizing the amount under property, plant and equipment.
- I will correct it in preparing accounts for the year 2024.
- Files should be maintained in a way that it is possible to accurately identify whether the projects are capital or recurrent and they should be clearly identified and accounted.

1.6.3 Unreconciled Control Accounts or Records

Audit observation	Comments of the Council	Recommendation
There was an unreconciled difference amounting to Rs.1,372,525 as at 31 December of the year under review between the balance of shop rent account and the total of schedules.	It was an error occurred in the computer software in the calculations and action will be taken to correct the software.	Action should be taken to rectify the accounts after reconciling the differences in the respective balances.

1.6.4 Suspension Accounts

Audit observation	Comments of the Council	Recommendation
Any schedule or time analysis had not been submitted to the audit for Rs.8,150,079 indicated as unreconciled balances (suspension account) in the statement of assets and liabilities as at 31 December 2023	As the information cannot be found, the approval of the Minister in charge of the subject has been sought for writing off.	Action should be taken to submit the relevant schedule and time analysis and the balances should be corrected.

1.7 Non-Compliance

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

Instances of noncompliance with Laws, Rules, Regulations and Management Decisions are mentioned below.

Non-compliance with reference to laws, rules, regulations, etc.	Non-compliance	Comments of the Council	Recommendation
---	----------------	-------------------------	----------------

(a) National Audit Act, No. 19 of 2018

Section 38(2) of Chapter VII	A copy of the written review conducted by the Chief Accounting Officer to ensure that an effective internal control system for financial control is maintained and the necessary changes have been made for the effectiveness of that system had not been submitted to the Auditor General.	Action will be taken to submit a copy of the review of the internal control to the Auditor General.	Action should be taken in terms of the Act referred to.
------------------------------	---	---	---

(b) Paragraph 5 of the Public Administration Circular No. 02/2018 dated 24 January 2018.	A human resource development plan had not been prepared to include all the points from 1 to 6 in the form of Annexure 02 of the Circular to facilitate the future operations and progress review in order to maintain unity in the public service.	That was accepted.	Action should be taken as per the provisions of the Circular.
--	--	--------------------	---

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue, which had exceeded the expenditure of the Urban Council for the year ended 31 December 2023 had been Rs. 82,282,721 and corresponding to that, the revenue, which had exceeded the expenditure in the previous year had been Rs. 74,202,464.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue Arrears

According to the information submitted by the \Secretary of the Council, information related to the estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year are mentioned below.

Revenue Source	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	`000 Rs.	`000 Rs.	`000 Rs.	`000 Rs.	`000 Rs.	`000 Rs.	`000 Rs.	`000 Rs.
(i) Rates and Taxes	57,393	60,027	71,580	54,376	57,544	57,407	48,402	62,063
(ii) Rents	21,123	27,410	26,576	17,684	16,733	21,182	22,068	16,784
(iii) License Charges	954	1,106	1,099	1,769	1,797	1,129	1,958	-
(iv) Other Revenue	190,723	-	223,429	-	103,231	-	89,702	-
	----- 270,193 =====	----- 88,543 =====	----- 322,684 =====	----- 73,829 =====	----- 179,305 =====	----- 79,718 =====	----- 162,130 =====	----- 78,847 =====

2.2.2 Performance in the Collection of Revenue

	Audit observation	Comments of the Council	Recommendation
(a)	Since the amount recovered as at 01 January 2023 had been Rs.25,352,042, out of the outstanding assessment balance amounting to Rs. 58,707,846 as at 31 December 2023, the percentage of collections had been 43 percent.	That has been accepted.	Arrears of assessment taxes should be recovered.
(b)	Evidence had not been submitted to the audit to verify the measures taken to recover the outstanding balance amounting to Rs. 30,433,738 at the end of the year under review in relation to 163 assessment units with a value of more than Rs. 50,000. Furthermore, it was indicated that the number of properties for which warrants had been issued was 167, and therefore, a discrepancy in the number of properties was observed.	Red notices have been issued for warrants and only 137 properties were above Rs.50000 as at 31.03.2024.	Evidence should be submitted to the audit to ascertain the action taken to recover the outstanding balance.
(c)	Since assessment of rates had not been carried out for over 10 years, it was not possible to increase the revenue of the Council as the assessment rate had been Rs. 0 for the 83 units, out of 4999 units, and the assessment rate had been Rs. 10 to Rs. 29 for 4 units and the assessment rate had been Rs.30 for 109 units and the assessment rate had been Rs. Rs.31 to Rs.50 for 167 units.	The Department of Valuation has been informed by letters to conduct a new assessment.	Action should be taken to increase revenue.

- | | | | |
|-----|--|---|--|
| (d) | The revenue earned from license fee collected in the year under review had been decreased by 56 percent i.e. Rs. 859,000 compared to the previous year, and the estimated revenue had been decreased by 46 percent i.e. Rs. 843,000. | That has been accepted. | Document of the relevant properties should be corrected based on the writing-off of outstanding assessment balances. |
| (e) | The assessment tax amounting to Rs. 233,771 outstanding as at 31 December 2023 related to 07 cell tower companies had not been recovered. | An amount of 91,866.24 related to the 2023 has been paid from 04 institutions belonging to this amount. | Arrears of assessment should be collected from cell tower companies. |

3. Operational Review

3.1 Procurement and Management

Audit observation	Comments of the Council	Recommendation
(a) In the comparison of the projects mentioned in the procurement plan prepared for the year under review and the industry progress report prepared as at 31 December 2023, the estimated value of 16 projects, out of 17 projects that had not been mentioned in the procurement plan, had been Rs.18,580,558 and the contract value of a project, in which the estimated value had not been indicated, had been Rs.45,000. As a result, a total of approximately Rs.18,625,558 were projects contradictory to the procurement plan.	Action will be taken to submit a revised procurement plan in the future.	The procurement plan should be accurately prepared.
(b) Although the estimated amount for repairing the damaged roads in the procurement plan had been Rs.1,000,000, it was observed that Rs.16,127,067 had been spent for that in the year under review, and accordingly a sum of Rs.15,127,067 i.e. 1513 percent had been spent exceeding the estimated amount.	The revised procurement plan will be prepared in the future.	The procurement plan should be accurately prepared and implemented accordingly.

3.2 Management Inefficiencies

Audit observation	Comments of the Council	Recommendation
Even though the monthly rent of every building and land, which are leased out in relation to a local government institute should be revised every 3 years from the date of lease based on the assessment of the government assessor according to the Circular of the Department of Local Government bearing No. LGD/13/2016 (i) dated 03 December 2020, it was observed that the monthly rent of the year under review for 14 shops on the sides of the Handala Canal had been charged based on the assessed value of the year 2019.	The new assessment for the 14 shops located on the sides of Handala Canal has been received dated 23.11.2021 and 29.08.2023, and accordingly, that assessment has already been implemented.	The monthly rent shall be revised by every 3 years based on the assessment of the Government Assessor.

3.3 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
It was observed that there had been 2 vacancies in 2 senior level posts, and 10 vacancies in 5 secondary level posts, and 20 vacancies in 8 primary level posts within the staff of the Council as at 31 December 2023.	The Chief Secretariat has been informed. The recruitment activities for the posts having PL salary codes have been carried out in accordance with Section viii and Section ix of Paragraph 02 of Management Services Circular 02/2020.	Action should be taken to fill up the vacancies in the approved staff.