

Maharagama urban council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maharagama urban council for the year ended 31 December 2023 comprising the Statement of assets and liabilities as at 31 December 2023, Comprehensive Income Statement, statement of changes of equity/ net assets for the year, Cash Flow Statement 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 and with the provisions of the National Audit Act No. 19 of 2018 read in conjunction with Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255). 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 Maharagama urban council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 Sri Lanka Public Sector Accounting Standards 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 urban council's financial reporting process.

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.

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.

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

1.6 The Audit observations regarding preparation of Financial Statements

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

Non-compliance with reference to relevant standard	Comments of the Council	Recommendation
(a) According to the paragraph no 3.26 in standard the cash and cash equivalents should have been Rs.196,623,414 at the end of the year in the cash flow statement but it was shown as Rs.212,384,111,	That the cash balance was received as Rs.212,384,111 by adjusting the related cash outflows and inflows.	The cash flow statement should be prepared correctly.
(b) According to the paragraph no 3.29 in standard the cash flow from investment activities was understated by Rs.43,211,129 due to the adjustment of Rs.106,788,871,	That the value of Rs.106,788,871 is correct.	-Do-

though the amount used for investment should have been Rs.150,000,000 in the year under review.

1.6.2 Accounting Deficiencies

Audit Observations	Comments of the Council	Recommendation
(a) In the year under review, although the value of the work done in the 03 projects completed was Rs.6,006,569, the estimated value of Rs.11,700,000 was accounted for and the creditor accounts and expense accounts had been overstated by Rs.5,693,431.	That Rs.5,693,431 which had to be paid further due to making only part payment for all the three industries have been accounted as creditors.	Creditor allocation should not be made for completed projects.
(b) Due to double entry in working progress accounting of two projects, working progress account and reserve and allocation account had been overstated by Rs.9,900,000.	That will be corrected.	Action should be taken to accounted correctly.
(c) In the year under review, the reimbursement income from members allowances had been stated more than Rs.720,000.	That has been accounted correctly.	-Do-

1.6.3 Unreconciled Control Accounts or Reports

Audit Observation	Comments of the Council	Recommendation
(a) There was a difference of Rs.17,201,027 when comparing the balances of 02 accounting subjects shown in the financial statements with the balances shown in their related documents/reports.	That will be corrected in future.	The differences should be identified and corrected

- (b) As on the last day of the year under review, the balance according to the employee security deposit account was Rs.769,379 and according to the employee security investment account it was Rs.880,592, and a difference was Rs.111,213. That the balance of the employee security deposit account and the employee security investment account are not the same due to reasons such as not investing immediately after receiving the security deposit and the interest income of the depositors is included in the employee security investment account and interest is not included in the employee security deposit account. -Do-
- (c) According to the ledger, the opening balance of rates was Rs.222,220,947 and according to the schedule it was Rs.222,077,068, a difference of Rs.143,879 was observed. That will be corrected in 2024 The differences should be identified and corrected

1.6.4 Documentary Evidences not made available for Audit

Subject	Amount Rs.	Non Presented Audit Evidence	Comments of the Council	Recommendation
(a) Pre payments and Advances	1,343,706	Schedules	Action will be taken to present the schedules.	Schedules should be presented.
(b) House Rent Deposits	1,084,544	-Do-	-Do-	-Do-
(c) Capital assistance receivable from the Provincial Council	11,471,982	-Do-	-Do-	-Do-

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

Reference to rules, regulations and management decisions

Comments of the Recommendation Council

F R 571 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka

208 expired deposits with a total value of Rs.37,439,657 had not been regulated.

That these expired deposits will be recorded as income through a journal entry in the preparation of the final accounts of 2024. The Financial Regulations should be followed.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the council for the year ended 31 December 2023 .amounted to Rs.480,318,446 as compared with the excess of revenue over expenditure amounted to Rs.81,921,825 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 secretary the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sours	2023				2022			
	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 December	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 December
	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'
i. Rates and tax	252,433	265,592	166,139	99,453	244,688	250,620	238,377	222,220
ii. Rent income	25,260	27,461	21,913	5,549	24,545	24,879	25,168	11,928
iii. License Fees	1,600	6,830	6,830	-	600	473	473	-
iv. Other Revenue	6,000	7,141	7,141	-	9,200	8,735	8,755	-
Total	285,293	307,024	202,023	105,002	279,033	284,707	272,773	234,148

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the council	Recommendation
(a) Rates and Taxes		
(i) According to progress reports related to rates at 31 December 2023 only Rs.74,598,922 had been collected from the outstanding assessment debtor balance of Rs.222,214,780 at the end of last year and Rs.147,478,148 or 66 percent had failed to be collected.	For the recovery of arrears, property prohibition officers are deployed in the field and mobile services are being carried out to collect.	Action should be taken to recover the arrears according to the provisions of the act.
(ii) According to the arrears rates tax period analysis, there was a outstanding of Rs.97,391,793 which existed for 05 years and more.	For the recovery of arrears, property prohibition officers are deployed in the field and mobile services are being carried out to collect.	Action should be taken to recover the arrears according to the provisions of the act.
(iii) As at the last day of the year under review Rs.19,996,004 had been outstanding from 77 properties above Rs.100,000, Rs.9,009,215 from 133 properties between Rs.50,000 and Rs.100,000 and Rs.207,764,789 from 55495 properties below Rs.50,000. remained standing.	That its progress will be submitted after receiving it from the Revenue Inspectors.	-Do-
(b) Rent		
(i) As of the last day of the year under review, there was a outstanding of Rs.15,684,183 from 318 shops. In that balance, Rs.2,759,013 from 37 shops that are in arrears between	The final notices for shortage related to shops have sent to Public markets, Dehiwala Road, Satipola Approach Road and Kottawa etc. Also, 69	Action should be taken to recover the outstanding.

02 and 03 years, Rs.7,232,760 from 51 shops that are in arrears between 03 and 05 years and Rs.971,734 from 06 shops that are in arrears for more than 05 years.

The outstanding had continued for a long time due to the fact that the rights of the shops that do not pay rent were taken back to the urban council according to the agreements and leased to other parties also.

shops that have been in arrears for a long time have been sent to legal proceedings and most of them are currently under investigation.

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| <p>(ii) There was no arrangement to renew the contracts with 210 trading points whose contract period had expired or to get the trading points from the council and lease them to other parties as at the last day of the reviewed year.</p> | <p>That the taken over activities are been done.</p> | <p>Action should be taken to renew the contracts or leased to other parties.</p> |
| <p>(iii) The tax rent and fine of Rs.237,050 had not been collected although the car park rates No. 98, Colombo Road was handed over to the council due to non-payment of rent.</p> | <p>That actions are being taken to file a case in the District Court to collect the arrears.</p> | <p>Action should be taken to collect the arrears.</p> |

3. Operational Review

3.1 Performance of functions assigned by the Act

Audit Observation	Comments of the Council	Recommendation
<p>(a) The council had not taken any action to sell leaving waste or produce fertilizer through a compost project and sell non-biodegradable waste. There fore the Waste Management Authority had spent totaling</p>	<p>The amount of garbage generated in the Maharagama sabha area is high and the removed garbage has to be disposed of at the Karadiyana garbage yard and money has to be spent on vehicles that are</p>	<p>The council's vehicles should be used as much as possible to get income for the council through the sale of garbage and to transport the garbage.</p>

Rs.113,385,560 with taken to transport the garbage
 Rs.69,717,610 for solid waste on a rental basis. That the
 disposal and Rs.43,667,950 for Maharagama Urban Council
 private vehicles in addition to the does not have a place to start a
 council's vehicles for transporting compost project or to collect
 waste to the Kerawalapitiya and sell it for animal feed, that
 Thermal Power Plant in the year the garbage will be collected
 under review. separately from residential and
 business places and delivered
 to the Karadiyana Mihisaru
 compost yard.

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| (b) | In the reviewed year, an income of Rs.11,698,788 was earned from the removal of garbage from the business establishments, but the council did not enact a by-law for collecting garbage tax and the fees had been charged based on a decision of the council. | That a by-law will be enacted to collect revenue by removing garbage from the institutions after the urban council members and the provincial council become active. | A by-law should be enacted to collect garbage tax. |
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3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A current account closed in August 2015 had a nominal value of Rs.2,052,258 under cash and it was not settled in the year under review as well.	The Assistant Commissioner of Local Government has appointed a panel of three investigation officers to conduct an investigation in this regard and further work will be done after the investigation report.	Action should be taken to settle.
(b) In accordance with Asset Management Circular No. 4/2018 of the Ministry of Finance and Mass Media dated 31 December 2018, all fixed assets of the	Since it was to be done with the introduction of the new accounting system in the year 2020, it is not possible to carry out the revalue and make the	Revaluation should be done.

- institution must be revalued when submitting financial statements, but the urban council had not revalued the assets in the year under review as well. relevant adjustments at present.
- (c) Rs.194,580,046 was retained in the cash book at the end of the reviewed year and due to keeping money for daily needs and not investing the remaining money in short-term deposits, the council had lost an income that could have been obtained. According to the balance in the cash book, an amount of Rs.200 million has been diverted for fixed deposits. Excess money should be invested in fixed deposits.
- (d) Due to non-reimbursement of interest installments of property loan from the government to the council, the balance of the account had increased to Rs.5,445,782 in the year under review and the amount had not been collected. According to the letter dated 2019.09.19 of the Local Government Commissioner, it has been informed that the property loan will not be reimbursed for the years 2019 and 2020 and that no written notification has been made in this regard for the subsequent years. Property loan interest must be reimbursed.
- (e) At the end of the year under review, industrial creditors worth Rs.187,327,499 had not been settled coming from period of 01 year to 07 years. The clearly identified creditors in the years 2016, 2017, 2018, 2019 and 2020, had been settled and the problematic creditor balances had been noted for future settlement. Action should be taken to settle the industrial creditors.
- (f) General supply creditors worth Rs.25,424,406 related to the years 2019, 2020, 2021 and 2022 had not been settled in the year under review. That this balance will be settled in the year 2024. Action should be taken to settle the supply creditors.
- (g) which was the total balance of Rs.5,193,559 of court deposits, security deposits and nation That will be settled in future. Action should be taken to settled.

building tax accounts had not been settled which have been in existence for a long time.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
The values of only 38 lands Out of 87 lands had been identified and accounted for in 2023.	There are only details of 78 lands in the Register of Deeds and it is currently expected to carry out valuation work.	Value must be recognized and accounted.

3.4 Vehicle System Management

Audit Observation	Comments of the Council	Recommendation
(a) As at the end of the year under review, 26 vehicles owned by the council had been idle. A compactor was idle since the year 2020 and information about when other vehicles have been idle was not submitted to the audit.	That the answers will provide later.	Vehicles should be repaired and used or should be disposed.
(b) Tires purchased in the year 2023 are between 02 and 06 years old 34 tires worth Rs.2,077,943 were in the warehouse as of the last day of the year under review. Also, 07 tires worth Rs.213,150 manufactured in the year 2008 purchased in the year 2022 were still remaining by the last day of the reviewed year.	At present, purchases are done considering the year of manufacture and 14 tires have been issued so far out of the 41 tires available at the end of 2023. Due to the presence of some vehicles in the garage due to repair conditions and the request for tires has not yet been requested from the tire store.	The purchase of tires should be made on the basis of need and identifying the year of manufacture.

3.5 Contracts Management

Audit Observation

Comments of the Council

Recommendation

(a) **The following facts were observed regarding the construction of the public toilet at land No. 35, Maharagama**

(i) According to No. 03 of the Secretary of the Ministry of Local Government and Environment (Western Province) Circular No. 03/2020 dated 11 July 2020, a project report must be submitted for construction projects of more than Rs.02 million and a justification report and a feasibility report on the project must be included. It had not been dealt with accordingly.

That was accepted.

The Circular should be followed.

(ii) In the letter of the Director of the Urban Development Authority dated on 22 April 2022, when the Urban Development Authority had not given recommendations for the development of the proposed public toilet on the said land and the construction without approval had been informed to stop immediately, the contract had been awarded in January 2022 and its work had started.

For this, by discussing personally with the Urban Development Authority and taking verbal advice from them, using the chairman's powers in full, great efforts were made to successfully complete this project and the work was completed step by step and handed over to the people.

The construction work should be started after obtain approvals and the relevant recommendations.

(b) As per paragraph 2.3 (iv) of Public Finance Circular No. 01/2021 dated on 29 September 2021, the concerned society undertakes not to subcontract the contract work and if subcontracting, such societies/organizations should be blacklisted. However, according to the public representation, it was observed that the two projects of widening the side drain of Talawathugoda Weli Road and the renovation of the drains on both sides of Shanthipura 03rd lane were assigned to a community board and were subcontracted to another person, but the council did not pay attention to it.

That if it is proved that they are awarding contracts to other persons to carry out the assigned industries, the said societies can be blacklisted.

Check whether subcontracts have been given and blacklist those societies accordingly.

