

Thalawakele Lindula Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thalawakele Lindula Urban Council for the year ended 31 December 2023 comprising with the Balance Sheet as at 31 December 2023 and Income and Expenditure Account, 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 sub-section 181(1) of the Urban Councils Ordinance (Chapter 255) and 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Thalawakele Lindula Urban Council as at 31 December 2023, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 Generally Accepted Accounting Practices, 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 Sub-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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 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 governing body of the Pradeshiya 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- Financial statements of the Urban Council are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented, except for the observation given in Paragraph 1.2.1 and 1.2.2 (a) (I)(II),(d),(e) and (f) of the summary report of the previous year.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Library books worth Rs.599,615 and wooden furniture and fittings worth Rs.2,880,397 which had been purchased and received as Donations in the year under review had not been capitalized.	That will be corrected in due course.	Assets should be capitalized.
(b)	Even though an amount of Rs.414,080 overestimated as stamp duty receivable in last year should be written off from the accumulated fund, only Rs.63,500 had been written off from Journal Note No. 23.	That will be corrected in due course.	Accounts should be corrected.
(c)	The stamp duty receivable as at 31 December of the year under review had been under-accounted by Rs.912,440 and the overestimation of court fines by Rs.3,046,422 in 03 years had not been adjusted to the accumulated fund.	- Do -	- Do -

(d)	The creditors of a development project showed an excess of Rs.396,950 as at the last date of the year under review.	Measures will be taken to correct this in the next year.	Financial Statements should be prepared after identifying the correct values for the Financial Statements.
(e)	The machines and equipment which had been purchased for Rs.1,282,358 in the year under review had not been accounted for.	- Do -	- Do -
(f)	The value of 14 items amounting to Rs. 240,700 included in the inventory register had not been accounted for and the value of 10 items had not been assessed and accounted for.	- Do -	- Do -
(g)	40 units of stock amounting to Rs.2,509,653 which should be shown under general stores had been accounted for under furniture and fittings. Consumables worth Rs.1,000,653 had been included in the machine and machinery value of Rs.11,157,848.	- Do -	- Do -

1.6.2. Unreconciled Control Accounts

Audit Observation

There was a difference of Rs. 3,597,101 when comparing the 02 account balances shown in the financial statements as at the last day of the year under review with the balances mentioned in the respective schedules.

Comments of the Council

It has been corrected in the year 2024.

Recommendation

Differences should be identified and corrected.

1.6.3. Lack of Documentary Evidence for Audit

Audit Observation

12 account balances with a total of Rs.6,965,508 as stated in the financial statements as at the end of the year under review could not be satisfactorily verified during the audit due to non-submission of Documents, files and schedules related to them.

Comments of the Council

It will be corrected in the year 2024.

Recommendation

Evidence should be submitted to prove the balance.

1.7 Non-compliances

1.7.1 Non-compliances with Laws, Rules, and Regulations

Instances of non-compliances with Laws, Rules, and Regulations, are as follows.

Reference to Laws, Rules, and Regulations	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i. Financial Regulation 189 and 486	There were Dishonoured Cheques of amounting to Rs.100,000 dated 10 May 2021 in the bank reconciliation submitted as at 31 December of the year under review.	A case has been filed in this regred.	The cases should be dealt with according to the judgement.
ii. Financial Regulation 571 (3)	Deposits amounting to Rs. 315,530 pertaining to 11 expired cases had been remained unsettled.	Measures had been taken by now to settle these advances.	Financial Regulations should be followed.

1.8 Transactions not confirmed by sufficient authority

Audit Observation	Comments of the Council	Recommendation
Although a building application dated December 13 of previous year and submitted had not been approved by the planning committee, but the Chairman of the Municipal Council had approved a development permit dated January 25 of the year under review for building construction on and issued permits	Measures will be taken to approve development permits only for those applications for which the relevant files had been forwarded to the planning committee and approved.	Measures should be taken within the existing frame of law.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure for the year ended as at 31 December of the year under review, amounted to Rs. 863,691 as compared to the corresponding revenue for the preceding year in excess of the recurrent expenditure amounting to Rs. 3,345,147.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

According to the information made available by the secretary, particulars on the estimated revenue, billed revenue, collected revenue, and outstanding revenue relating to the year under review and the preceding year, are given below.

Source Of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	6,460,000	6,177,380	5,267,314	4,792,030	6,780,000	6,724,918	6,148,583	3,881,965
(ii) Rent	7,733,500	11,042,794	10,869,206	6,207,618	10,045,040	11,805,249	11,338,817	6,034,029
(iii) License fee	1,676,000	-	1,077,000	-	895,000	594,000	594,000	-
(iv) Other Revenue	5,962,600	5,055,918	3,970,008	6,579,142	59,801,720	7,500,000	8,597,808	5,493,232
	<u>21,832,100</u>	<u>22,276,092</u>	<u>21,183,528</u>	<u>17,578,790</u>	<u>77,521,760</u>	<u>26,624,167</u>	<u>26,679,208</u>	<u>15,409,226</u>

2.2.2 Performance in Collecting Revenue

Observations on performance of the Council in collecting revenue are given below.

Audit Observation	Comments of the Council	Recommendation
(a) Revenue management.		
Rs.4,608,817 out of the deficit of the previous year and any amount out of the amount of Rs.1,289,000 weekly fair fees and rents to be paid to the council by 31 December of the year under review had not been collected and Collection of arrears of Rates tax, house rent and land tax remained at a low level from 01 to 23 percent.	Revenue collection activities are planned to be carried out through mobile services in the year 2024.	Arrangements should be made to collect the arrears of revenue as per the provisions of the Act.
(b) Rates and Taxes		
i. Even though all immovable properties in the council area should be assessed at least once every 05 years in terms of the Section 20 of the Rate and Valuation Act	Property valuation has been completed by now and the report has not yet been received.	The valuation should be Done on time.

No. 30 dated 07 August 1946, Rates and Taxes had been levied based on the valuation Done in the year 2011 without Doing so.

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| ii. | No measures had been taken to collect the assessment tax of Rs. 2,993,419 , which was outstanding for a period of 05 to 18 years according to section 170 of the Urban Councils Ordinance Act (Charter 255). | Actions have been taken to follow the property seizing procedure by June 2024. | Arrears of revenue should be collected. |
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(c) License Fee | | | |
| i. | Even though license fees should be obtained for business establishments existing in the municipal area, licenses had not been obtained by 134 business establishments that had been surveyed in the year under review. | That the necessary measures will be taken in the year 2024. | Trade license revenue bills should be levied according to the provisions of the Act. |
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(d) Court fines and stamp fees | | | |
| | The amount of court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review was Rs.3,913,182 and stamp duty was Rs.2,665,960. | That letters have been issued in this regard. | Income should be brought in. |
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(e) Other revenue | | | |
| i. | According to the Advertising Standard By-laws, in the Local Authorities (Standard By-laws) Act No. 06 of 1952, 25 billboards worth Rs.205,800 were displayed without a permit from the council, and no permits were issued to them. | Measures will be taken in this regard during this year. | Arrears should be charged. |

3. Operational review

3.1 Performance

Audit Observation

No annual performance report or governance report had been prepared for the year under review.

Comments of the Council

Measures had been taken to prepare in the year 2024.

Recommendation

The performance report should be prepared.

3.2 Uneconomic Transactions

Audit Observation

Even though a sum of Rs. 569,890 had been spent for repairs of a lorry during the year under review, the money spent on the lorry was uneconomic as the concerned lorry is unusable.

Comments of the Council

This vehicle is not in running condition as the starter motor is not available in this vehicle.

Recommendation

Repairs should be Done considering the need.

3.3 Management Inefficiencies

Audit Observation

- (a) Any legal action had not been taken by the council regarding the three-storied building being constructed illegally near Pieris Funeral Hall in Thalawakele.

Comments of the Council

Letters had been forwarded regarding unauthorized construction.

Recommendation

Legal actions should be taken regarding illegal constructions.

- (b) The value of 20 items including laptops, printers and scanners which had been Donated to the public library of the council had not been recognized and accounted for and they remained unused and idle by the date of the audit.

Measures will be taken to correct in the year 2024.

Assets should be capitalized.

3.4 Idle and Underutilized Property Plant and Equipment

Audit Observation

- (a) 08 equipment which had been given to the public library by a private project remained idle since 18 September of the year under review.

Comments of the Council

This equipment will be included in the relevant inventory register and put to use.

Recommendation

Measures should be taken to use.

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| (b) | 06 vehicles worth Rs.15,230,000 and 03 assets worth Rs.641,000 which had been available from 03 to 08 years as at the last date of the year under review remained idle and underutilized. | Auction will be arranged in due course. | Usability should be considered. |
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3.5 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) The quantity of fuel amounting to Rs. 5,727,143, which had been spent from year 2020 to 31 December of the year under review, could not be confirmed as the no measures had not been taken to repair mileage meters of 04 vehicles in use.	Measures will be taken to repair mileage meters.	Mileage meters should be repaired.
(b) Even though a vehicle had been prepared with the intension of using as a mobile library, it was parked idle in the council premises without being used for that purpose.	Measures will be taken to repair.	It should be used for the intended purpose.

3.6 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) There were 30 vacancies in 12 posts comparing the Approved and actual staff as at 31 December of the year under review.	The relevant authorities have been informed in this regard.	Vacancies should be filled.
(b) The loan balances amounting to Rs.639,986 had not been recovered from 05 officers who retired, died and transferred as at 31 December of the year under review.	The loan balance will be recovered in due course.	The loan balance should be collected.