

Nawalapitiya Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nawalapitiya 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 paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Nawalapitiya 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

I expressed qualified opinion 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 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 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 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 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 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 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
During the year under review goods issued from warehouse amounting to Rs.307,470 were not accounted for.	It will be corrected in the future	It should be correctly accounted for.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
As per the financial statements at the end of the year under review, the inventory balance was Rs.5,468,613, while it was Rs.4,678,438 according to the source documents, there was a difference of Rs.790,175.	The difference will be looked into and corrected.	Account balances should be corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to the non-submission of schedules, balance confirmation letters, industry files, confirmation letters, accounts and supporting documents for the remaining balance of the software, related to 07 asset balances totalling Rs.13,413,346 shown in the financial statements, they could not be verified satisfactorily.	It will be looked into and corrected	Documents, files and schedules should be maintained to verify each account balance.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows

Reference to Laws, Rules Regulations	Non-compliance	Comments of the Council	Recommendation
(a) Section 34 (a) of the Urban Council Ordinance	143 people had been settled since the year 2010 under lease agreements in an area of 16 acres, 01 roods and 9.27 perches in the Bavvagama Imbulpitiya garden land belonging to the council without the approval of the minister.	The survey will be conducted and further work will be done	It should be complied with the provisions of the Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial regulation 371 (2)	Although the advances should be settled as soon as the given work is completed, the total of 04 advances of Rs.139,999 given in the years 2016 to 2022 had not been settled even by the end of the year under review.	It will be settled as soon as possible	It should be complied with financial regulation.
(ii) Financial regulation 571 (3)	26 lapsed deposits of Rs.1,034,041 related to the period between 2016 – 2020, were not settled.	It will be settled as soon as possible	It should be complied with financial regulation.
(c) Public Administration Circular No. 30/2016 dated 29 December 2016	In 11 vehicles, fuel combustion test was not conducted from 2017-2022.	It will be implemented immediately.	Circulars should be followed.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2023 amounted to Rs.44,102,141 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 39,334,039 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 relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown 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	14,422,500	14,280,765	14,453,260	19,018,664	14,556,530	13,347,331	13,726,250	19,191,159
(ii) Rent	47,679,000	47,677,525	25,780,445	140,000,766	45,855,195	46,718,659	20,711,891	118,103,686
(iii) License Fees	875,000	1,336,250	1,336,250	-	590,000	536,450	536,450	-
(iv) Other revenue	8,850,000	9,597,300	8,128,564	13,784,203	5,300,000	5,300,000	3,431,678	12,315,467
	<u>71,826,500</u>	<u>72,891,840</u>	<u>49,698,519</u>	<u>172,803,633</u>	<u>66,301,725</u>	<u>65,902,440</u>	<u>38,406,269</u>	<u>149,610,312</u>

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
<p>(a) Rates and Taxes</p> <p>At the end of the year under review, the outstanding assessment tax balance was Rs.17,831,727, and the total of 321 assessment units whose assessment tax arrears exceeded Rs.10,000 per unit was Rs.11,593,014.</p>	<p>The arrears be recovered through seize of property.</p>	<p>Revenue should be collected by following the provisions of the Act.</p>
<p>(b) Stall Rent</p> <p>As on December 31 of the year under review, there was a stall rent arrears balance of Rs.134,558,962, out of which, 51 stalls where the stall rent arrears exceeded Rs.100,000 were Rs.27,213,122. Also, the outstanding balance of the super mall was Rs. 106,075,964 and due to the rent increase based on the assessment made in 2018, the stall owners had defaulted on the rent payment. It had been sued against the Urban Council in the year 2019. The case was not concluded due to the absence of legal documents regarding the ownership of the land where the mall is located. As of the end of the year under review, an amount of Rs. 527,600 was outstanding from 03 hut stalls on Gampola Road. According to the new assessment made in 2018 for 49 stalls on Kotmale road owned by the council and 07</p>	<p>The legal action will be taken</p>	<p>Arrears should be recovered.</p>

stalls near the supermarket, there was a arrears of Rs. 24,797,439 due to default of rent payment by the lessees.

(c) Other Income

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| (i) | At the end of the year under review, the arrears of water charges were Rs. 845,973, and the arrears remained for a period between 03 and 05 years. | Action will be taken to write off. | Arrears of water charges should be recovered. |
| (ii) | In the years 2008 and 2021, 02 water projects held by the council were assigned to the National Water Supply and Drainage Board and a Community Water Society, but the arrears on that date of Rs. 707,374 and 138,600 was not recovered. | The arrears will be recovered. | Arrears of water charges should be recovered.. |
| (iii) | The arrears of Advertisement fees related to the period from 2020 to the year under review amounting to Rs.894,970 was not recovered. | The arrears will be recovered. | Arrears should be recovered. |
| (iv) | Although there are 02 approved traffic controller posts, due to the failure to collect parking fees formally, at the end of the year under review, the outstanding fees of Rs.5,687,444 was not collected from 31 parking yards. | The arrears will be recovered. | Arrears should be recovered. |
| (v) | Rs.1,685,820 was not collected from 03 institutions that obtained the sports complex and dormitory facilities related to the period 2019-2021. | The arrears will be recovered. | Arrears should be recovered. |

(d) Court Fine and Stamp Fees

Court fines amounting to Rs.374,750 and stamp duty amounting to Rs.9,064,800 were due from the Chief Secretary of the Provincial Council and other authorities on December 31 of the year under review.

The adjustments are made in the accounts as per schedule.

Court fines and stamp duty should be recovered.

3. Operational Review

3.1 Fulfillment of functions assigned by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of

the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

Audit Observation	Comments of the Council	Recommendation
(a) without using the recurrent income in the previous years for regional development, Rs.16,758,846 had been invested in fixed deposits	They will be used for the installation of solar panels.	Action should be taken to earn income.
(b) The garbage collected by the council is recycled and organic fertilizer is produced, and although 31,450 kg of fertilizer was produced during the year under review, the sale was 4,886 kg. Accordingly, a stock of organic fertilizers worth Rs. 212,512 had been improperly piled in the garbage yard and allowed to perish without being used.	A formal program is being prepared.	Waste should be managed.

3.2 Identified Losses

Audit Observation	Comments of the Council	Recommendation
(a) Regarding the irregularity of Rs. 1,431,151 that has occurred in the assessment software identified in the years 2020-2021, the investigation had started on February 21, 2022, but even though 02 1/2 years have passed since the irregularity was identified, there was no any police complaint or F.R. 104(3) and F.R.104(4) investigations were conducted.	Actions will be taken to file a police complaint	According to the Financial regulations, relevant investigations should be carried out promptly.
(b) The cab used by the former chairman had an accident on 09 May 2022, and although the gross estimate of the loss was estimated at Rs.9,500,000, the relevant F.R.104(3) and F.R.104(4) investigation had not been conducted by the end of the year under review.	It had been referred for F.R. investigation	It should be complied with Financial regulations.

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| (c) | According to the provisions of the Employees' Provident Fund Act No. 15 of 1958, due to the non-remittance of contributions from the employees and employer to the State Employees' Provident Fund of 10 employees recruited during the period 2013-2019 on the basis of daily wage payment, the employees had filed a lawsuit and according to the related court decision, since the council had to bear the employee's 08 percent contribution too, the loss was Rs.1,024,978. | The relevant amount was paid as per the provisions of the Act. | The loss to the council should be recovered. |
| (d) | Although the shortage of 211 units of unrecognized goods had been identified, the necessary measures had not been taken in this regard. | The necessary work will be done in the future | Shortage should be identified and necessary action should be taken. |

3.3 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The total of 04 accounts receivable balances as on December 31 of the year under review was Rs.1,419,497, of which the total of account balances between 1 and 5 years was Rs.519,537 and the total for more than 5 years was Rs.859,330.	Action will be taken to recover legally.	Receivable balances should be recovered.
(b)	The total of 02 accounts payable balances as on December 31 of the year under review was Rs.3,547,367, of which the total of account balances between 1 and 5 years was Rs.1,113,863 and the total for more than 5 years was Rs.731,290.	Action should be taken to settle.	Payable balances should be recovered.
(c)	According to the provisions of the Urban Development Authority Act No. 41 of 1978, buildings should be constructed after obtaining a development permit, but the council had not followed any action regarding 06 buildings that had been constructed out of the procedure.	Action will be taken to correct the shortcomings.	The provisions of the Act should be followed.
(d)	According to inventory records and board of survey reports, the balances should be compared with the balances of fixed assets	The adjustments will be made in the future.	Documents should be maintained correctly.

and the relevant balances should be included in the financial statements, at the end of the year under review, machinery and equipment amounting to Rs.23,731,104, furniture and fittings amounting to Rs.30,581,211, were presented in the financial statements after adjusting purchases and disposals to the balances of the previous year.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
As at the end of the year under review, 13 tractors and tractor trailers worth Rs.4,260,750 remained idle and underutilized for a period ranging from 03 to 10 years.	Action will be taken to repair and auction	Arrangements should be made to repair and use or dispose of unusable assets.

3.5 Assets Management

Audit Observation	Comments of the Council	Recommendation
The legal rights of 45 plots of Land and one Cab used by the council had not been taken over.	Actions are being taken to take over this land.	Ownership should be taken over.

3.6 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) Comparing the approved staff with the actual staff, there were 29 vacancies in 14 posts and 11 excess in 03 posts.	Vacancies had been reported through monthly staff information reports.	Vacancies should be filled.
(b) From 38 officers and employees who retired, transferred, left service and died during the period 1988 - 2021, the total loan balance due was Rs.937,252.	Action will be taken to recover	Loan should be recovered.

**4. Accountability and Good Governance
Sustainable Development Goals**

Audit Observation

According to the provisions of the Sustainable Development Act No. 19 of 2017, although the council had identified sustainable development objectives and targets, it had not taken Actions to achieve them.

**Comments of the
Council**

Action will be taken in the future

Recommendation

Objectives and targets should be identified and implemented.