

## **Point Pedro Urban Council - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Pointpedro Urban Council for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory 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 provisions of section 181 (1) of Urban Council Ordinance (Cap.255) and the National Audit Act, No. 19 of 2018. 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 accompanying financial statements give a true and fair view of the financial position of the Pointpedro Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified 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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles 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.

#### **1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)**

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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 skepticism 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

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The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of the Urban Council is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) An expenditure of Rs. 116,012 incurred by the fund of the council relating to balance repairing work of Naachchimaar temple road had been included in the land and building, thus the values of the non-current assets and government subsidy for capital expenditure had been overstated by Rs. 116,012 in the financial statements.	Expenditure for this work scheme had been included in the land and building erroneously. At present, this error had been rectified by journal entry. it will be disclosed in the financial statement of the year 2022 as per journal entry.	Action should be taken to rectify said error.
(b) The values of 06 lands belonging to the Sabha had not been included in the financial statements by assessing values thereof, the value of non-current asset had been understated.	The values of 06 lands belonging to the Sabha had been evaluated, but it had not been included in the asset account due to non-availability of deeds and documents thereof. The values of these lands had been included in the asset account and disclosed in the financial statements once deeds thereof are received.	It should be ensured that activities are completed and records are made in accordance with accounting policies and deficiencies should be rectified.
(c) 04 work schemes and 02 vehicle repairs had not been completed by the Sabha in the year under review. However, vouchers had been prepared in the name of the secretary and included in the sundry creditors account, thus income over expenditure had been understated	04 work schemes had been transferred to sundry creditors account due to non-receipt of payment bills in the year under review. At present, payment had been made for these work schemes. Vehicle repairs had been completed and payment thereof had been made	It should be ensured that activities are completed and payments are made in accordance with accounting policies and said errors should be rectified.

and current assets had been overstated by Rs. 6,035,326. by now.

- (d) According to clause 7 (f) of section 157 of the Urban Council Ordinance, the fees for the licenses issued for the advertisement boards installed under the purview of the council should be recovered. However, fees for the 15 advertisement boards that had been installed had not been recovered, thus the revenue surplus had been understated by Rs. 49,725 in the financial statements of the under review.
- A letter has been sent to the respective shop owners to recover the fees for the 15 advertisement boards mentioned in your audit report and a follow up action are being taken to recover them.
- Effective appropriate action should be taken to make efficient revenue collection management and recover the arrears expeditiously.

## 1.7 Non-compliances

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

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc. are given below.

<b>Reference to Non-compliance with Laws, Rules, Regulations and Management Decisions etc.</b>	<b>Non-compliance</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Financial Regulations of the Democratic Socialist Republic of Sri Lanka No. 571	No meaningful action had been taken by the council in respect of lapsed miscellaneous deposit and contractor's deposit of Rs. 604,609 for more than 02 years.	Action is being taken.	Action should be taken in accordance with the provisions of Financial Regulation expeditiously.

## 2 Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs. 36,053,271 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 41,959,620.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collection of Revenue

Observations are given below relating to performance in collection of all revenue of the council.

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
<p>(a) <b>Rates and Taxes</b></p> <p>According to 160(1) of Chapter 255 of the Urban Council Ordinance, it was observed that no meaningful steps had been taken to recover the arrears of assessment tax of Rs. 1,625,742 on lands and constructed houses and buildings comes under the purview of the Council for more than 02 years.</p>	<p>A sum of Rs. 2,797,084 out of arrears amount remained till 31.05.2022 had been recovered by the council through mobile service conducted for the period from 23.01.2022 to 31.01.2022 and revenue collection officer.</p>	<p>Effective measures should be taken to make the efficient management of revenue collection and to recover the arrears quickly.</p>
<p>(b) <b>Rent</b></p> <p>The agreement of 61 shops with regard to properties given for long lease facilities by the council was to be renewed once in 05 years or 03 years but no action had been taken in this regard. Also, a sum of Rs. 706,149 was remained as rent arrears for more than 05 years.</p>	<p>The said 13 shops have handed over documents to the owners to renew their contracts. Arrangements are being made to enter agreements with other shops. Also, a sum of Rs. 13,900 had been recovered in the arrears of council land.</p> <p>A sum of Rs 236,192 has been recovered out of rent arrears of modern market shop. The balance of Rs 316,359 is due from the period of non-operation of the shop due to Covid-19. This amount has been submitted for approval of Honourable Governor for exemption.</p>	<p>Meaningful actions should be taken for timely renewal of contracts and meaningful actions should be expedited regarding the outstanding balance.</p>

### 3. Operational Review

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The matters observed in respect of execution of activities that should be executed under Section 4 of the Urban Councils Ordinance such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

#### 3.1 Management Inefficiencies

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<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
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(a) <b>Failure to obtain expected outcomes</b> Although 07 upper floor shops of the modern market belonging to the council were completed in 2013, due to non-lease of some of them, there has been a loss of income worth Rs. 260,000 in the year under review.	A letter has been sent on 13 May 2022 for the approval of the Local Government Commissioner for calling bids to award said shops by receiving one year's rent in advance for the purpose of business.	Meaningful actions should be taken to fully utilize the income sources of the council for income purposes.
(b) A fixed deposit amounting to Rs 121,451,369 was deposited in the bank for the purpose of earning interest income without being used for city development.	Interest income on fixed deposits is included in the budget of the council and used for development work. At present fixed deposit activities are being carried out for the specific purpose.	Actions should be taken to utilize the funds available in the council for the activities at optimum level.

#### 3.2 Operating Inefficiencies

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<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
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Vibrating rollers valued at Rs. 4,160,000 shown in the equipment register was not found physically.	A letter along with the copy of investigation committee report and copy of other documents has been sent to the Assistant Regional Commissioner of Local Government on 17 March 2022 to obtain approval from the Honorable Governor regarding the write-off of the losses of these assets such as vibrating roller of 103,000.00 and road roller of Rs. 1,114,769.	In this regard, meaningful actions should be taken as soon as possible.

### 3.3 Human Resources Management

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<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
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<b>Employee Loan</b> A sum of Rs 212,820 have to recovery from two retired and pensioner on distress and festival advance loran arrears had not been taken action to recovery during the year under review	Action have to take recover the loan balance of Rs 95,740 from mr c.sivalingam from his pension and festival advance had been recovered	Steps should be taken to recover the distress loan and festival advance

### 3.4 Management of Vehicle Systems

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<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
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Although heavy vehicles belonging to the council can be used to generate income for the council, no action has been taken in this regard during the year under review. The Gully Bowser service has been suspended due to the lack of suitable places for the Pointpedro Urban Council to dispose of the liquid waste received through the this service.	The service used by the Compactor is very low.	In this regard, meaningful actions should be taken as soon as possible.