

Ja-ela Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ja-ela Urban Council for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the Comprehensive income statement, statement of changes in net assets/ equity cash flow statement for the year and notes to the financial statements, including a summary of significant accounting policies, 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 Section 181 (1) of Urban Council Ordinance (Cap.255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in 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 Ja-ela Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Srilanka Public Sector Accounting Standards for Local Governments.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 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 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 exercised 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 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 are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented 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 Public Sector Accounting Standards for the Local Authorities

Non-compliance with Reference to the Relevant standard	Comment of the Sabha	Recommendation
(a) Even though the Property, Plant and Equipment should be reported under 14 categories according to the Standard No.3.5 and the letter No.LGD/10A/4/2019 dated 12 February 2021 by the Commissioner of Provincial Councils, the assets like Office Equipment, Computer Software, and roads, culverts and bridges had not been categorized in the financial statements for the year under review.	Inform that the revaluation process could not be finished because of the Corona Pandemic Situation.	Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards.
(b) Even though all the assets owned by the Sabha should be revalued and stated according to the Standard No.18.7 and the letter No. LGD/10A/4/2019 dated 01 February 2021 by the Commissioner of Provincial Councils the office Equipment, Motor Cars and Carts, Furniture and Fittings of the Sabha had not been revalued and only 17 out of 252 pieces of lands had been revalued and stated in the accounts.	Inform that actions would be taken to make the revaluation and make that accounts and calculate the depreciation on those values when preparing the final accounts for the year 2022.	Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards.

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| (c) | According to the Standard No.9.9 and the Section EG 2.7 of the Detailed Explanations for the Standards on Provincial Councils the amount rest after deducting the amount recognized by the comprehensive revenue from the Donations for the Capital Expenditure should be stated under Note No.10 as the unrecognized Donations in surplus But the total receivable donations for the year under review of Rs.10,829,000 had been stated under the Note No.5 of the Statement of comprehensive revenue and even though the relevant depreciations that should be deducted by the capitalized value of the Donations for the Capital Expenditure of Rs.16,438,272 regarding the preceding year, but it had not been done. | Inform that the actions would be taken to make it correct by the Journal Entries in the future. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |
| (d) | Even though the Roads, Culverts and other Infrastructure and Property, Plant and Equipment should be stated under different accounting codes according to the Section EG 3.2 of the detailed explanations for the Standards on Provincial Councils, the Roads, Culverts Drains and Side Walls developed by Rs.29,567,827 during the year 2020 and by Rs.14,741,154 during the year under review had not been stated. | Inform that the actions would be taken to make it correct by the Journal Entries in the future. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |
| (e) | Even though if there is the work in Progress it should be stated as a separate category in the statement for the Property, Plant and Equipment according to the Section EG 3.1 of the detailed explanations for the Standards on Provincial Councils, two tasks in progress for the year under review of Rs.6,225,000 had not been stated. | The shedules for the Work in Progress and Industries had not been rendered by that department. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |
| (f) | Even though the revenue arose by the exchange transactions and non-exchange transactions should be recognized and stated separately according to the Standard No.9 and 10, the transactions valued Rs.173,766,641 of the Sabha had been stated without being recognized accordingly. | Inform that the actions would be taken to make it correct in the future. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |
| (g) | Even though the capital expenditure on assets should be stated under the code No.2112 according to the the letter No. LGD/10A/4/ಁ.ಃ/2019 dated 18 September 2020 by the Commissioner of Provincial Councils the balance of the capital expenditure account of Rs.28,438,602 had been stated under the financial expenditure in the comprehensive revenue statement. | Inform that the actions would be taken to make it correct by the Journal Entries in the future. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |

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| (h) | Even though the Property, Plant and Equipment should be depreciated according to the Section EG 3.3 of the detailed explanations for the Standards on Provincial Councils, the Property, Plant and Equipment owned by the Sabha had not been depreciated. | Inform that actions would be taken to make the revaluation and make that accounts and calculate the depreciation on those values when preparing the final accounts for the year 2022. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |
| (i) | Even though the State Contribution for the recurrent expenditure should be declared in the financial statements under the Note No.04 according to the exemplary formats, the State Contribution for the recurrent expenditure of Rs.72,845,000 had been stated under the Note No.06 except for Note No.04. | Inform that the actions would be taken to make it correct in the future. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a.) An amount of Rs.2,066,119 key money from 03 Stalls that could not be actually receivable by the Sabha had been stated in the account.	Actions had been taken to state it in the accounts because a confirmation had been received by the revenue subject.	Actions should be taken to state it accurately.
(b.) Value of the loan instalment of Rs.1,086,000 on the vehicle loans deducted by the Stamp Duty receivable for the year under review by the Department of Provincial Councils, that amount had not been credited to the Stamp Duty Income therefore, the Stamp Duty Income had been understated by that amount for the year under review.	Inform that the actions would be taken to make it correct in the future.	Actions should be taken to state it accurately.

(c.) 03 industries received money and paid off and 02 industries not made the agreements had been stated as receivable capital donations of Rs.2,220,933 therefore, The Capital Donations receivable for the year under review had been overstated by that amount.	Inform that even though 03 industries paid off had been rendered as creditors, it had been paid off the last payment for the year as at the end of the audit period.	Actions should be taken to state it accurately.
(d.) The creditors for the year under review had been overstated by Rs.10,344,939.	Actions would be taken to remove the creditors that been paid off.	Actions should be taken to state it accurately.
(e.) Even though the Cash Flows generated from the Operational, Investment, and financial activities should only be declared in the Cash Flow Statement, the revalued amount of the non-current assets of Rs.3,688,787,625 as an income generated by investment activities and the balance of the payable non-current liabilities of Rs.9,016,400 as an income generated by the financial activities had been stated erroneously in the Cash Flow Statement	This value had not been stated in the accounts for the Lands and Building as at 31 December 2021, therefore inform that the revalued amount had been stated in the Cash Flow Statement.	Actions should be taken to state it accurately.

1.6.3 Unreconciled Control Accounts

Audit Observation

Comment of the Sabha

Recommendation

There was a difference of Rs.29,815,327 relevant for 10 items of accounts, between the balances as per the financial statements and the balances as per the corresponding reports.

Actions would be taken to make it correct in the future.

Actions should be taken to reconcile the balances and make them correct.

1.6.4 Transactions Without Specific Authority

Audit Observation

The lease rent receivable amounting to Rs.975,220 on 04 assets leased out by the Sabha had been written off because of the Corona Pandemic Situation by the Sabha for the year 2020 and 2021 under a decision taken by the Sabha and sent for the approval by the Commissioner of Provincial Council but the approval had not been received as at the audit date 31 December 2021.

Comment of the Sabha

It had been sent to obtain the approval by the Commissioner of Provincial Council on and reminders had been sent dated 07 October 2021 and 25 May 2022.

Recommendation

The approvals should be obtained.

1.7 Non-Compliances

Non Compliances with the Rules, Regulations and Management Decisions

Ref. to the rules, regulations and management Decisions	Non- Compliance	Comment of the Sabha	Recommendation
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----- The Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i. Rule No.04(1)	No any actions had been taken against a theft of a iron net and a Rs.140,000 valued iron grader other than complaining it to the police.	Inform that suspects had not been identified so far through the investigations carried out by the Police.	Actions should be taken under the regulations referred.
ii. Rule No.371(b)	The sub imprests of Rs.137,749 given on 02 instances before year 2021 had not been settled as at 31 December 2021.	Inform that the actions would be taken to settle in the future.	Actions should be taken under the regulations referred.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, surplus amounted to Rs.44,943,673 for the year ended on 31 December 2020 as compared with the corresponding surplus for the preceding year amounting to Rs.1,949,338

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

	Audit Observation	Comment of the Management	Recommendation
(a)	The amount of rates for the 108 unit which the rates amount is over Rs.50,000, had been Rs.12,535,903 by the whole amount of receivable rates as at 31 December 2021 and it had only 15 units of Rs.2,185,939 had been recovered as at 19 April of the year 2022.	Inform that red notices had been send to recover the rest of the amount.	The actions should be taken to recover the arrears income.
(b)	Even though the monthly rent should be revised on the revaluation every three years according to the Circular No.LGD/13/2016 dated 01 November 2016 by the Commissioner of Provincial Council the rent had been recovered from 105 business places in the Ja-ela Common Market under the valuation made in the year 2011 as at 31 December 2021. The new valuation had been received on 25 May 2018 and it had not been implemented even though Sabha had decided to do by 10 September 2020 and the new valuation had been received on 29 October 2021 and it had also not been implemented. The payment of stall rent had been avoided by the October 2020 to 31 May 2022 and Sabha had not been taken any actions on failure to pay the rent. Therefore the receivable rent for 105 stalls as at 31 December 2021 had been Rs.13,568,720.	Inform that the amended valuation had been received dated 29 November 2021 therefore actions are being taken to inform the stall owners with the new valuation to make new agreements and the payments.	The rent should be recovered on the new valuation and actions should be taken according to the Circular.

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| (c) | The rent amount receivable from 60 stalls in the new market complex had been Rs.761,225 as at 31 December 2021 and even though the agreements had been expired actions had not been taken by the Sabha to make new agreements. | Inform that the actions are being taken to inform the lessees with the new valuation to make new agreements and the payments. | Actions should be taken as soon as possible to make new agreements after expiring the old agreements. |
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3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

Audit Observation

Comment of the Management

Recommendation

An amount of Rs.483,000 had been paid to a private institution on 21 October 2021 for soil inspection to fix a Kaushima Machine in Suduwella Compost Yard even though the Solid Waste Management Authority of the Western Province had not informed in written to give a Kaushima Machine to the Compost Production project and action had not been taken to obtain this machine had place it as at the date of audit on 31 March 2021 .

This had been done under the verbal advices given by the chairmen

The project should be commenced as soon as possible.