

Minuwangoda Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Minuwangoda Urban Council for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the Statement of comprehensive income, Statement of changes in 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 sub 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 Minuwangoda Urban Council as at 31 December 2021, 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 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 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 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 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 Accounting Policies

Audit Observation	Comment of the Sabha	Recommendation
Even though it had been informed by the Accounting Policy that the computer software would be recognized as Assets in the Financial Statements, the value of two Computer Software used in the Revenue Section and the Library had not been calculated and stated.	Inform that the actions would be taken to enter this to in the year 2022.	Actions should be taken according to the policies declared.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) An amount spent on making the drainage system of the Common Market of Rs.317,713 had been inserted as Work in Progress in the Buildings and Roads twice, therefore the non-current assets had been overstated by that amount.	Inform that the actions would be taken to make this correct by the final accounts for the year 2022.	Actions should be taken to state it accurately.
(b) The retention money on 05 roads completed last year of Rs.488,433 had been stated as work in progress for the year under review therefore the depreciation for the year had been understated by Rs.48,843.	Inform that the actions would be taken to make this correct by the final accounts for the year 2022.	Actions should be taken to state it accurately.

(c) A tractor trailer of Rs.189,000 had been stated under the general Stock Account even though it had been stated under the motor vehicles, therefore the stock account had been overstated by that amount.	Inform that the actions would be taken to make this correct by the final accounts for the year 2022.	Actions should be taken to state it accurately.
(d) The lavatory system built of Rs.5,388,056 in the year 2017 at the Hadirama Junction had not been entered in the Property, Plant and Equipment.	Inform that the actions would be taken to make this correct by the final accounts for the year 2022.	Actions should be taken to state it accurately.
(e) Depreciation on the machinery and equipment had been overstated by Rs.27,513.	Inform that the actions would be taken to make this correct by the final accounts for the year 2022.	Actions should be taken to state it accurately.
(f) Even though the policy of the Sabha had been to depreciate for the whole year which it had been disposed, the depreciation for the year of Rs.14,891 had not been stated for 02 trailers disposed of Rs.372,267 during the year under review.	Inform that the actions would be taken to make this correct by the final accounts for the year 2022.	Actions should be taken to state it accurately.
(g) Machinery and Equipment purchased last year of Rs.300,060 had been debited to the Furniture and Fittings as a journal entry to make errors correct, therefore the balance in the Furniture and fittings account of Rs. 300,630 and the depreciation account of Rs.22,547 had been overstated.	Inform that the actions would be taken to make this correct by the final accounts for the year 2022.	Actions should be taken to state it accurately.
(h) The loan balance payable to the Local Loans Development Fund had been overstated by Rs.82,274.	Inform that the actions would be taken to make this correct by the final accounts for the year 2022.	Actions should be taken to state it accurately.

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| (i) | Even though the total cash flows generated from the Operational, Investment and Financial Activities should be equal to the net increase/ decrease of the cash or cash equivalent things, the net cash flow generated from the Operational, Investment and Financial Activities had been Rs.165,322,846 in the prepared cash flow statement and the net increase of the cash or cash equivalent things had been Rs.9,448,096 therefore a difference of Rs.155,874,750 had been arisen. | Inform that the actions would be taken to make this correct by the final accounts for the year 2022. | Actions should be taken to state it accurately. |
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1.6.3 Unreconciled Control Accounts

Audit Observation

Comment of the Sabha

Recommendation

There was a difference of Rs.440,837 relevant for Furniture and Fittings between Account as at 31 December 2021 of Rs.6,684,449 and the balances as per the corresponding reports of Rs.6,364,582.

Actions would be taken to make it correct by the year 2022

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

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess amounted to Rs.22,083,743 for the year ended on 31 December 2020 as compared with the corresponding excess for the preceding year amounting to Rs.5,039,859.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation

Comment of the Management

Recommendation

The balance rates in arrears as at 31 December 2021 incurred Rs.3,950,735 of rates in arrears regarding 47 rate units which had been arrears over Rs.50,000.

No Comments.

The actions should be taken to recover the arrears income.

2.2.2 Rent

Audit Observation	Comment of the Council	Recommendation
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<p>A deposit had been made in the Sabha an amount equal to 04 days of rs.885,000 according to the Section 03 of the agreement when leasing out the new weekly fair for the year 2022 even though it had been stated that a property security/ bank draft or an insurance equal to the rest of the value would be agreed by the second party no actions had been taken to give any security like that. Sabha had informed by a decision taken on 09 March 2021 that tax relieves would not be given on Corona Pandemic for the two days 31 January 2021 and 07 February 2021. Therefore the lessee had requested to cancel the tender for he could not continue the weekly fair. So only Rs.221,250 had been deducted by the security and paid Rs.663,750 to the bidder except for deducting the whole amount and pay back rs.442,500.</p>	<p>Inform that the arrears would be deducted by the arrears security deposits and black list the tenderer’s name and the committee had decided to charge the weekly fair charges by the Urban Council in the future.</p>	<p>Actions should be taken according to the Agreements.</p>

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
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<p>Even though no actions had been taken over 04 year to open for the Public Consumption as at 31 December 2021 after construction of the lavatory system of Rs.5,388,056 in the year 2017 at Hadirama Junction and Sabha had been taken the approval to remove this Public Lavatory and suggested a project to construct Shopping Complex for tourist attraction</p>	<p>The approval to remove the lavatory had been requested from the Governor of Provincial Council but no approval or recommendation had been received so far.</p>	<p>The Constructions should be carried out on the Urban Development Plans.</p>

and a rest house with lodging facility under the approval of the Governor of Provincial Council on 09 March 2021. Therefore the amount spent had been idle because of the weakness in decision making of the management.

Inform that actions had been taken again to send a letter to the governor regarding this matter.

3.2 Deficiencies in Contract Administration

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
<p>(a.) An agreement had been made with an Association for a construction of 3 storied building in Ambagahawatta land at Minuwangoda Colombo Main Road but a feasibility study had not been carried out also a Project report and an estimate on the total cost had not been approved. The agreement amount for the phase I of this Project, construction of the basement of this three storied building had been Rs.2,355,303 and an association had been selected according to the Section 3.9.4 of the Procurement Guidelines and offered the tender. Even though according to the Section 5.3.5 of the Procurement Guidelines the agreements should be made under the conditions and rules imposed by the Authority of Industrial Construction Development but it had not been done and even though the constructions had been commenced in the year 2019 because of not making necessary actions regarding the protection of the land the constructions had been stopped in the middle because of an enjoining order.</p>	<p>The Planning Committee had also given the approval to Plan. The enjoining order had been taken by another party therefore the construction had been stopped due to the legitimate situation.</p>	<p>The Procurement Procedures should be carried out on a total cost estimate and settle the matters to start the project.</p>
<p>(b.) The amount spent in the year 2012 for the construction of Weekly Fair of Rs.10,118,651 had been idled expense without generating any asset to the Sabha and actions had not been taken to carry out an accurate survey to identify effective projects.</p>	<p>The approval to remove the open building by the Governor of Provincial Council and actions had been taken to build the vehicle yard of the Sabha by using the parts removed. Inform that the rest of the parts would be safely staked in the Weekly Fair Premises.</p>	<p>The Projects should be scheduled according to the Urban Development Plan.</p>

(c.) An agreement had been made with a Community Board for the construction of the Road in front of the Old Bus Stand Minuwangoda by 03 months starting from 16 September 2021 and paid Rs.1,093,607 reducing the 10 per cent retention on 11 January 2022. An Investigation of 03 persons had been appointed to investigate the matters regarding the construction of the road according to their report estimates had been made to 50.5 cubes of ABC is needed to lay on the whole road for one feet height, but the committee decided for 25 cubes for 4 inches therefore it had been observed that this road had not been built on the standard. According to the report of the Secretary of the Sabha on 04 April 2022 the concrete of the surface had ben cracked on several places and therefore make the necessary repairs but actions had not been taken to make them repaired as at 15 April 2022.

The technical evaluation committee had been reported that it should be suitable to investigate the thickness of the layer of ABC, the thickness of the layer of Concrete and the strength of compression of the layer of Concrete by a certified institution. Sabha had been decided to pay according to that report. The contractor had been informed to repair the cracks observed on the road and the repairs had not been dong yet therefore the situation about the road could be reported after the repairs had been done.

Control systems should be made for quality control of the Construction projects.

3.3 Human Resources Management

Employee Vacancies and excess

Audit Observation

The collection of arrears in 11 Divisions had been difficult because of the shortage of Revenue Inspectors.

Comment of the Management

The approval to fill up the post revenue inspector had been requested but not received yet.

Recommendation

Actions should be taken to fill up the posts.