

Rathnapura Municipal Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rathnapura Municipal Council for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, cash flow statement, statement of changes in equity, significant accounting policies and the summary of 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 the section 219 of the Municipal Council Ordinance (Authority 252) and 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 Rathnapura Municipal Council as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

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 Responsibility for the Audit of 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 financial reporting process of the Municipal Council.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Municipal Council is required to maintain proper books and records of its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Auditor's Responsibility 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 exercise 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 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 contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council;
- Whether the Municipal Council 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

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

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year.

- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (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 -----
(a) 15 Buildings totaling Rs. 37,248,283, 02 lands of 02 acres and 18.5 perches, furniture and fittings, CCTV camera system and library books received as donations were not capitalized.	That will be corrected in the final account of the year 2023.	This should be corrected.
(b) .The value of 14 lands and buildings and library books which were removed and handed over to other institutions in the previous year and the value of Rs. 231,025 were not removed from asset accounts.	That will be corrected in the final account of the year 2023.	This should be corrected.
(c) The cost of raw materials purchased in previous year for construction industries of Rs. 1,095,610 and the cost of water meters purchased for water projects of Rs 750,000 were accounted under furniture and fittings.	That will be corrected in the final account of the year 2023.	This should be corrected.
(d) Debtor provisions for 02 industries were overstated for Rs. 591,910 and another industry was understated for Rs. 322,944.	That will be corrected in the final accounts of the year 2023 after checking documents.	This should be corrected.
(e) Provisions of industrial creditors had been over accounted for Rs. 8,114,333 at the end of the year under review.	That will be corrected in the final account of the year 2023.	This should be corrected.
(f) Audit fees relating to the previous year amounting to Rs. 972,000 had been accounted as ab expense in the year under review.	That will be corrected in the final account of the year 2023.	This should be corrected.
(g) Rs. 11,108,551 was over accounted under various creditors for industries related to previous years.	That will be corrected in the final account of the year 2023.	This should be corrected.

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| (h) | The value of the furniture and fittings purchased in the year under review was over capitalized by Rs. 178,020 and the value of the road crushing auctioned in the previous year was not removed from the financial statements by Rs.,1,000,000. | That will be corrected in the final account of the year 2023. | This should be corrected. |
| (i) | Creditor provisions were not made 09 items of expenditure which totaled Rs. 2,531,669 for the year under review. | That will be corrected in the final account of the year 2023. | This should be corrected. |
| (j) | The loan installments and interest of Rs. 4,948,780 to be paid to the Local Loans and Development Fund in the year 2024 were mentioned under current liabilities. | This is advised to make correct entries in the financial statements in future financial activities. | This should be corrected. |
| (k) | The value of compost stock of Rs. 631,005 was not accounted as at the last date of the year under review. | The value of the stock of compost was recorded to account from the year 2023. | This should be corrected. |
| (l) | The value of the existing water meters as at the end of the year under review had been under-accounted by Rs. 270,000. | That will be corrected in the final account of the year 2023. | This should be corrected. |
| (m) | There was a difference of Rs. 70,191,607 between the balances as per financial statements and the balances as per source documents in 09 accounting subjects at the end of the year under review. | A difference in opening balances over a long period of time. It will be corrected as possible in next year. | The reasons for the difference should be identified and solved. |

1.6.2 Unauthorized Transactions

Audit Observation -----	Comments of the Council -----	Recommendation -----
100 Journal entries worth Rs. 2,079,074,872 were not formally approved and journal vouchers were also not prepared.	Action will be taken to get a formal approval for the 100 journal entries.	Journal entries should be formally approved.

1.6.3 Lack of Written Evidences for Audit

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Detailed schedules were not submitted for confirmation of 05 accounting subjects totaling Rs. 101,531,877.	Officers were instructed to keep documents up-to-date and all officers were informed to submit documents when required. Information related to these accounting subjects will be submitted in future.	Detailed schedules should be prepared.
(b) Materials released from storage and their values were not documented as they could be identified during project execution on direct labour basis. Due to this, the expenditure incurred for 13 industries with an estimated value of Rs. 4,205,032 could not be accurately during the year under review.	During the implementation of projects on direct labour basis, a system is being prepared as that the materials released from the warehouse and their value can be identified and the expenses for 13 industries will be identified and accounted.	Releasing of materials should be properly documented.

1.7 Non-Compliances

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

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

Audit Observation -----	Comments of the Council -----	Recommendation -----
02 Advances total amounting to Rs. 1,699,740 were not settled on 01 January 2022 contrary Financial Regulation 371 (5) and Rs. 5,313,189 overdue sundry deposits amounting to Rs. 5,313,189 for the period from year 2001 to year 2020 were not settled as Financial Regulation 571 (2).	Future arrangements will be made to clear the advances and settle the deposits.	Should be act as per Financial Regulations.

2. Financial Review

2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2022 was Rs. 77,075,195 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 61,809,296.

2.2 Revenue Administration

2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the council, the information about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year is given below.

Income Source	2022				2021			
	Estimated income	Billed income	Collected income	Arrears as at 31 December	Estimated income	Billed income	Collected income	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	35,700,000	35,811,543	32,284,460	39,878,569	28,085,000	29,408,399	24,999,555	39,481,893
Rentals	78,990,000	61,612,508	59,030,279	41,708,638	87,915,328	58,595,955	58,863,454	26,269,758
License fee	18,556,000	18,511,110	15,134,679	7,910,175	3,628,700	3,206,128	3,206,128	-
Other income	<u>78,061,000</u>	<u>74,082,280</u>	<u>77,594,480</u>	<u>9,154,106</u>	<u>262,023,300</u>	<u>67,858,974</u>	<u>53,620,308</u>	<u>10,709,264</u>
	<u>211,307,000</u>	<u>190,017,441</u>	<u>184,043,898</u>	<u>98,651,488</u>	<u>381,652,328</u>	<u>159,069,456</u>	<u>140,689,445</u>	<u>76,460,915</u>

2.2.2 Performance of the Revenue Collection

The observations regarding the performance of the revenue collection of the council are given below.

Audit Observation	Comments of the Council	Recommendation
(a) The outstanding balance of assessment was Rs. 39,878,569 as at the last date of the year under review and there was no time analysis of the outstanding balances.	The 21 years old software cannot get a time analysis related to that outstanding balance.	Time analysis should be prepared and arrears should be collected.
(b) It was possible to earn an income of Rs. 437,400 by tendering the collection of vehicle parking charges on the approved streets of Rathnapura city in first 03 months of the year 2022. Later, the system was changed and the work was assigned on the basis of giving 50 percent of the collected income, the income for the last 09 months of the year 2022 was only Rs. 781,700. Due to this, an income of Rs. 781,700 had been lost for the year 2022.	After the tenderer withdrew from the tender for parking charges, the 50 percent charge was charged based on the previous approval due to the lack of sufficient staff in the council.	The charging of parking charges on approved streets should be done through tender system.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Although it was informed in writing that a stock of sports equipment donated in the year 2021 for the installation of new town children's park was returned to the donor in December 2022, the equipment remained idle in the warehouse until 02 May 2023.	Although the donor was informed to return these children's garden items, that will discuss again with the Chief Secretary and the Governor.	Arrangements should be made to return it or make use it effectively.
(b) Although 06 persons who sell fish in old weralupa road in Rathnapura have been found guilty by the court decisions, they had not been removed by April 2023. However, since the Municipal Council has decided not to evict them until the construction of the fish market is completed, the expenditure of Rs. 316,500 for the litigation was questioned.	The Municipal Council has taken a decision not to remove them until the construction work of the premises to be built for the fish selling is completed.	Before, taking legal action, the related solutions should be determined by the general council.

3.2 Deficiencies in Contract Administration

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The renovations in the council were not estimated and Rs. 50,047 was paid for work not done and Rs. 311,700 for work that did not compliance with specifications.	These values can be deducted from the final bill. No estimate was prepared and only plans and specifications were submitted and prices were called.	Overpayments should be charged.
(b) Rs. 5,265,787 and 1046 labour days were spent on electrical equipment during the repair of the electrical system of the Municipal Council building. However, a formal plan (Electric Drawing) and a cost estimate had not been prepared and approved by a Chartered Electrical Engineer.	Although a cost estimate has been prepared, it has not been approved by a Chartered Engineer. A later prepared plan for the electrical system is submitted for audit necessity.	Relevant plans and estimates should be prepared and approved before commencing an industry.

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| (c) | Although a contractor has been assigned to construct the roof of the Rathnapura public shopping complex building, the contract had been canceled at the request of the contractor. Due to this, Rs. 151,632 paid for publication of procurement advertisements had become a useless expenditure. | I kindly inform that the contract has to be canceled as the contractor has informed that it is not possible to perform the work. | Industries should be implemented effectively and efficiently. |
| (d) | Due to the chamber built in front of the council premises for the installation of high power transformer devices was not used and it was demolished in the year 2022, Rs. 145,155 spent on that had been a useless expenditure. | Even though the Electricity Board had informed that the electric duck hatched should be installed on a concrete board, the duck hatched was installed on the high tension wire pole. Due to that, it was decided to remove the booth. | Needs should be correctly identified and constructed. |

3.3 Vehicle Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The state emblem and the name of the council were not applied on 09 vehicles owned by the council and the disposal of 03 vehicles, which were not in running condition, was not completed until December 2022.	Steps will be taken to apply the state emblem and the institution name on the vehicles in future and as tenders were called for auctioning the relevant vehicles, but the minimum valuation was not received and due to that, a second tender will be called.	Should be act as per the circular provisions.
(b) 09 Motorcycles belonging to the council were given to 09 employees of the council without written agreement. The need will be considered.	The need will be considered under an annual agreement in future and further work will be done on providing motorcycles.	Transfer of the respective motorcycles should be done in writing.
(c) Although the council's compactor was repaired in February 2021 after paying Rs. 2,410,000, it had become inactive in January 2022. Although the relevant institution was requested to fix the defects that occurred during the warranty period, they were not repaired by the end of the year under review.	The compactor was not in running condition due to a defect that occurred during the warranty period. Therefore, this vehicle was sent for repair and it is being currently repaired.	It should be repaired immediately by the relevant institution.

3.4 Visual Irregularities

Audit Observation	Comments of the Council	Recommendation
----- An officer of the mixed income division had defrauded the shop rent of Rs. 192,000 and she had accepted the guilt.	----- A basic investigation will be conducted by the Investigation Officers of the Sabaragamuwa Provincial Council and that money will be recovered in future.	----- Should be act in a disciplinary manner regarding the financial irregularirits.