

Wattala Mabola Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Wattala Mabola Urban Council including the financial statements for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, Comprehensive Income Statement, Statement of changes in net assets/ equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 provisions of 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 financial statements give a true and fair view of the financial position of the Wattala Mabola Urban Council as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statements 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 Section 16(1) of the National Audit Act No. 19 of 2018, 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 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 include 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 Unreconciled Control Accounts or Records

Audit Observation	Comments of the council	Recommendation
(a) Although according to the financial statements, the total balance of 4 accounting heads was Rs.173,875,104, according to the schedule, the total balance was Rs.170,456,053, hence a difference of Rs.3,419,051 was observed.	That it will be corrected and submitted in the future.	The differences in the respective balances should be compared and the accounts or schedules should be corrected.
(b) Due to non-accounting of Rs.74,556 received on purchase of library books in the year under review, there was a difference between the account and the schedule.	That the books included in the library's collection register during the year as receipts of the year and the books which were paid for in cash and received by the library even if not paid for in that year are receipts.	The accounts should be corrected by comparing the differences in the respective balances.

1.6.2 Suspense Accounts

Audit Observation	Comments of the council	Recommendation
Rs. 8,150,079 remained unsettled and suspense balance under current assets in the revised financial statement of the council.	No answers provided.	Arrangements should be made to settle.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the council	Recommendation
The value was 6 account balances amounting to Rs. 92,229,387 as at 31 December of the year under review could not be verified satisfactorily due to non-submission of registers and schedules.	That registers will be prepared in the future according to the new formats and age analyses will be presented in the future.	Registers should be prepared and maintained and age analyses should be presented.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the council for the year ended 31 December 2022 amounted to Rs.74,202,464 as compared with the excess of revenue over expenditure amounted to Rs. 48,496,019 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, information 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	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	000'	000'	000'	000'	000'	000'	000'	000'
(i) Rates and Taxes	57,544	57,407	48,402	62,063	56,692	58,038	49,312	56,692
(ii) Rent	16,733	21,182	22,068	16,784	18,548	15,773	13,307	14,753
(iii) License Fees	1,797	1,129	1,958	-	2,212	912	1,364	-
(iv) Other revenue	103,231	-	89,702	-	188,433	-	136,334	-
	179,305	79,718	162,130	78,847	265,885	74,723	200,317	71,445

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
Rates and Taxes		
(a) Since the amount collected was Rs.11,517,132 as at 31 December out of the outstanding rates balance of Rs.55,807,222 as at 01 January of the year under review, the percentage of collections was 21 percent.	That steps are being taken to recover outstanding balances.	Arrangements should be made to collect the outstanding balance as per the provisions of the Act.
(b) The balance of waste disposal charges was Rs.8,461,376 as at 31 December of the year under review.	That the correction of the errors in the documents has been approved and the remaining arrears are being recovered.	Arrangements should be made to recover outstanding balances as per by-laws.

Rent

The arrears balance of commercial premises rent and house rent was Rs. 16,835,859 as at 31 December of the year under review and of which Rs. 6,385,068 i.e. 38 percent was a balance that had been remained for more than 5 years.

That proceedings have been initiated for Rs.2,780,966 and the remaining arrears are being recovered.

Arrangements should be made to recover outstanding balances according to the accounts.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) Two lands owned by the council that had been identified in the land survey had not been revalue and accounted for.	That these differences have occurred due to errors in the documentation of the fixed assets register and deficiencies in the schedules.	Registers should be updated and correct values should be entered.
(b) The Local Government Commissioner had given a compactor to the council for making payments from the stamp duty income and at the beginning of the year under review there was a balance of Rs.6,774,000 to be paid for it. a total of Rs.6,840,000 premiums had been collected for that vehicle from stamp duty income during the year under review and accordingly Rs.66,000 more had been paid for it. There was no agreement or consent with the relevant parties regarding the method of charging premiums or any other conditions regarding the delivery of the vehicle.	That will be corrected in the future.	An agreement or consent should be made with the relevant parties and efforts should be made to correct it.
(c) Rs.1,162,532 from 07 officers who were transferred out of the council and Rs.251,466 from 96 officers who left the service should have been collected.	That the relevant office has been informed about the outstanding balance.	Arrangements should be made to settle the outstanding balances.
(d) A balance of Rs.240,702 had not been collected in 04 outstanding cheques brought forward for about 10 years under current assets in the financial statements.	Rs. 5865 that has been corrected by Revised Journal No. 06.	-do-

3.2 Assets Management
Audit Observation

Comments of the council

Recommendation

According to the information contained in the fixed asset register, it was revealed that the deed numbers were not mentioned in relation to 15 lands owned by the council and although it is the most basic task of the council to prepare the deeds to confirm the rights related to the land, it was not done so.

That it will be corrected in the future.

Registers should be updated.

3.3 Procurement Management
Audit Observation

Comments of the council

Recommendation

Rs. 922,985 had been paid to a private institution for preparing the organizational structure of the head office during the year under review. According to 2.3.1 (c) and 2.6.1 a (ii) of the Government Procurement Guidelines were not carried out during the call for tenders for the selection of this institution.

I would like to mention that the prices have been received from only 2 organizations and the plans have been submitted and the prices have been invited for the respective location. The bid documents including specifications have not been prepared and the prices have been asked to be submitted according to the plans. The contractor has been selected based on the decision of the Technical Evaluation Committee. In future, the procurement guidelines will be followed for preparation of specifications.

Procurement guidelines should be followed.

3.4 Human Resources Management
Audit Observation

Comments of the council

Recommendation

There were 29 vacancies in primary level cadre, 7 vacancies in 4 secondary level posts and 2 vacancies in 2 senior level posts as at 31 December 2022.

The task force reports related to the filling of vacancies have been forwarded to the Chief Secretary (WP) on 31.03.2023. That the existing junior staff vacancies are to be dealt with according to the letter of the Local Government Commissioner (WP) No. LGD/2G/පුරප්පාඩු/පොළ/2021 and dated 16.08.2021.

Action should be taken to fill the vacancies.