

Boralesgamuwa urban council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Boralesgamuwa 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, Cash Flow Statement and statement of changes of equity 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 and with the provisions of the National Audit Act No. 19 of 2018 read in conjunction with Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255). 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 Boralesgamuwa urban council as at 31 December 2022, 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 Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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, 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)

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 except the audit matters described in paragraph 1.6.1 (b) of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Stock on hand as on 31 st December 2022 was overstated by Rs.7,836,728.	That the journal vouchers had been prepared to remove this difference.	Stock on hand should be accounted correctly.
(b) Suspense account debit balance of Rs.14,363,746 and the unrecognized debit balance of Rs.224,217 had not been identified and settled as on 31 st December of the year under review.	That will be corrected in the year 2023.	The suspense account Should be settle and action should be taken to identify and accounted for the unidentified debit balances.
(c) The Rs.3,624,316 depreciation had been allocated for the Rs.36,243,159 cost of roads were completed in year 2022.	-Do-	The depreciation should be account correctly.
(d) Depreciation account had been overstated by Rs.3,511,567 due to depreciation for the revalued assets even though depreciation was not required during the revalued year.	-Do-	That should be account correctly.
(e) The accumulated depreciation account balance of Rs.18,906,466 as on 01 st of January 2022 had not been removed in relation to the revaluation asset items during the year.	No comments	-Do-
(f) The opening balances of Rs.4,544,247 in relation two account had not been copied to the ledger. Due to this it was not clear to the audit how the financial statements were balanced.	The amount of Rs.4,284,997 indicated as unfinished work in 2021, has been indicated under creditor payments due to the completion of all works by this year.	The opening balances should be account correctly.
(g) Audit fee had not been Allocated for the year under review.	After receiving the audit fee estimate, will be corrected it in the year 2023.	Allocations should be done.
(h) The amount relating to 04 cases of Rs.2,069,788 which was supposed to go to the Urban Development Authority account had been entered into the general account by mistake.	Action are being taken to invest this amount in a fixed deposit account after obtaining proper permission.	Accounts should be corrected.

(i) Although the council's depreciation policy was stated to be the diminishing balance method over the useful life of the asset, but the value of Rs.14,769,737 provided for depreciation in the reviewed year had been calculated using the strait line depreciation method.	Will be corrected in 2023.	Should be depreciated according to the depreciation policy.
(j) Whether investment interest income of Rs.5,557,609 should be deducted while preparing the cash flow statement, that amount was added while adjusting the surplus of the year under review.	Agreed	Cash flow statement should be prepared correctly.
(k) While adjusting the change in working capital for the year, decrease of the receivables amount was Rs.8,180,037 but it had been stated as Rs.38,826,705 in the cash flow statement.	-Do-	-Do-
(l) The increase in payables of Rs.17,047,618 for the year was added to the cash flow generated from operating activities as Rs.5,530,349, so the cash flow was understated by Rs.11,517,269.	-Do-	-Do-
(m) Although the received interest income during the year under review was Rs.3,942,296, it was adjusted to the cash flow as Rs.4,468,410.	This Rs.526,144 amount was received in year 2022 behalf of year 2021.	-Do-
(n) Although the grant for capital expenditure received during the year under review was Rs.8,725,859, but it was adjusted to the cash flow as Rs.30,933,446.	Agreed	-Do-
(o) Re-payments of long-term borrowings during the year amounting to Rs.1,866,000 should be deducted from the cash flow in financing activities, but that amount had been added.	-Do-	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) A difference of Rs.26,469,236 was observed when comparing the balances related to 03 account heads stated in the financial statements compared with the balances stated in the related documents/ reports.	Arrangements are being made with the schedules and will be made the necessary amendments and update the accounts.	The balances of the financial statements and schedules should be equal.
(b) The assessment income for the year should be Rs.27,964,577 but it was stated in the comprehensive income statement as the Rs.23,450,730. Accordingly there was a difference of Rs.4,513,847.	Will be corrected in year of 2023	Accounts should be prepared correctly.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of detailed schedules amount of Rs.377,401 relating to 02 accounting subjects unable to satisfactorily monitored during the audit.	Action will be taken to present the relevant documents.	Detailed schedules 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.49,306,547 as compared with the excess of revenue over expenditure amounted to Rs.23,913,815 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

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.

Revenue sources	2022				2021			
	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 st December	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 st December
	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'
Rates income	27,300	27,664	32,023	23,911	27,000	27,383	25,151	28,269
Rent income	990	990	1,012	371	990	990	1,000	370
License Fees	750	238	238	-	700	225	225	-
Other Revenue	1,250	1,149	1,149	-	1,150	909	909	179
Total	<u>30,290</u>	<u>30,041</u>	<u>34,422</u>	<u>24,282</u>	<u>29,840</u>	<u>29,507</u>	<u>27,285</u>	<u>28,818</u>

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
(a) Rates and Taxes		
(i) At the end of last year, the assessment debtor balance was Rs.28,269,300 out of which Rs.11,168,343 had been recovered during the year under review. According to that the council had failed to recover Rs.17,100,957 or sixty percent (60%)	Due to the Covid-19 situation in previous years it was not possible to implement property programs in the year 2022. So far 12% of the existing outstanding has been recovered. Legal action is to be taken to recover the remaining deficit.	Action should be taken to recover the arrears.
(ii) According to the Circular No. CD.2/3/101 dated 31 st December, 1980 of the Assistant Commissioner of Local Government, the rates should be charged after property assessed once in 5 years, but the council had not assessed the property after the year 2009.	Arrangements have been made to commence the revaluation of property from 02 nd May 2023.	Property should be assessed once in 05 years and assessment tax should be collected.
(iii) As of 31 st December of the year under review, Rs.1,125,199 from 05 properties above Rs.100,000 and Rs.1,080,727 from 05 properties	Out of these existing outstanding, some of the places are closed and the property has been removed due to road works.	Action should be taken to recover the outstanding assessment tax.

between Rs.50,000 and Rs.100,000 remained outstanding. Inform that the recovery will be done from other existing properties.

(b) Rent

(i) According to condition 02 of the rent agreement, if the rent payment is delayed for more than one month, stated that the right will be lost, but as at 31st of December 2022, the rent income of 19 shop rooms for a period of 01 to 24 months was Rs.271,264. Due to the inability to find lessees to re-lease in case of expropriation, it is not possible to lease shop number 27 at present. Working to collect the outstanding by informing the tax creditors. Action should be taken to recover the arrears.

(ii) Even though the monthly rent should be revised every three years from the date of engagement that 48 shops continued to charge rent based on the 2009 assessment in the year 2022 without renewing their contracts. Since the valuation work is scheduled to start from May 2023, which will make the charges after that. The property should be assessed Once in 03 years and the rent should be revised.

(c) Trade License Fees

The estimated license revenue for the year 2022 is Rs.750,000 and the collected revenue is Rs.237,531. It was only 31 percent of the estimated revenue. The survey work is being done by the revenue officers in the year 2023, and accordingly will be increased the income of the year 2023. Action should be taken to increase the trade license income.

3. Operational Review

3.1 Performance of functions assigned by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

Solid waste management

Audit Observation	Comments of the Council	Recommendation
The cost of waste disposal could be reduced by selling biodegradable waste or by making composting projects to produce fertilizer and sell non-biodegradable waste.	Whether try several attempts to find a suitable land to start a compost project, it was not possible to find such land in this densely populated area and it was decided in the Fixed Assets Committee to acquire such land in the future.	Efforts should be made to generate income from waste while minimizing waste costs.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Rs.42,172 for 02 projects implemented under decentralized budget programs in the year 2021 from Kesbewa Regional General Secretariat and Rs.10,701,222 for 26 projects implemented under rural development programs from the State Ministry of Rural Road Infrastructure, totaling Rs.10,743,394 had not been collected by the council and paid to the relevant institutions.	This amount has not yet been reimbursed and payment is to be processed after reimbursed.	The money should be reimbursed and paid to the respective institutions.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
According to the Fixed Asset Register, 20 out of 29 properties had no deeds or transfer orders to confirm the ownership.	Efforts are being made to confirm the ownership of properties other than the land whose ownership is confirmed by deeds at present.	Action should be taken to obtain deeds or transfer orders