

## **Ambalangoda Urban Council - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Ambalangoda Urban Council including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Income and Expenditure Accounts, Statement of changes in net assets, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy 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 Sub-Section 181 (1) of the Urban Council Ordinance (Chapter 255) and the 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 accompanying financial statements give a true and fair view of the financial position of the Ambalangoda Urban Council as at 31 December 2023, 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**

Opinion is qualified 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 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 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 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 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 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) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	The value of Rs.12,828,340 to be paid to the Local Government Pension Fund and the assessed value of 38 stock units related to 04 items identified in the board of survey as not recorded in the stores ledger were not accounted.	Will be rectified in future.	Should be accounted correctly.
(b)	According to the statement of financial position of the year under review, the final net asset value was Rs.182,632,104, and according to the statement of change in net assets it was Rs.181,312,401, as such there was a difference of Rs.1,319,703.	Those deficiencies are avoided in the preparation of financial statements.	- do -

- (c) The value of purchase of library books was overstated by Rs.67,180 in the year under review. Those deficiencies will not occur in the preparation of the financial statement of the year 2024. - do -

### 1.6.2 Non reconciled control account or records

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.4,475,193 between the balances related to 08 accounting items shown in the financial statements and the balances shown in the related utility registers.	It will be corrected in the future.	Accounts should be corrected by comparing differences

### 1.6.3 Non reconciled control account or records

Audit Observation	Comment of the Council	Recommendation
Due to non-submission of necessary information for the confirmation of 16 accounting items, aggregating to Rs.83,277,670 could not be examine satisfactorily.	The proper schedules will be provided in the future.	Evidence confirming the account balances and the correct sub registers should be presented.

## 1.7 Non-compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Council	Recommendation
(a) Section 170(2) of the Municipal Council Ordinance	The council had not employed a property prohibition officer to collect the tax money.	It has become difficult to hire an officer because the pay is insufficient.	Action should be taken according to the Act.
(b) Financial Regulations 371 of the Democratic	The advance of Rs.290,564 received by the council in the year	The information about the advance balances could not be found and	Action should be taken according to

	Socialist Republic of Sri Lanka	2017 and before was not settled.	that there was a book-keeping error.	the Financial Regulation.
(c)	Public Administration Circular No. 30/2016 dated 29 December 2016	02 vehicles and a Hardimec machine had not been disposed since the year 2014.	The disposal action will be completed in the future.	According to the circular, the disposal should be done promptly
(d)	The Section 5 of Southern Province, Local Government Commissioner Circular No. /2010/01 dated 27 December 2010	Although each shop stall agreement should be updated once in 03 years, the council had on the contrary contracted for 10 years for 46 shop stalls.	The all current shop stall lease agreements be updated to 03 of 03 years.	Agreements should be renewed as per the Circulars.

#### 1.7.2 Unauthorized transactions

Audit Observation	Comment of the Council	Recommendation
The secretary had used the council's vehicle in the year 2023 without group transport facilities to travel between home and office 4 times a day and had paid Rs.973,464 for fuel.	The secretary should have all the powers vested in the chairman.	Vehicles should be used to minimize the costs.

## 2. Financial Review

### 2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.23,564,792 as compared with the excess of revenue over recurrent expenditure amounting to Rs.19,158,420 in the preceding year.

## 2.2 Revenue Administration

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

Source of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	27,775,000	23,412,643	25,597,905	33,037,261	24,050,000	23,950,355	24,696,404	35,222,523
Rent	26,338,750	19,879,535	18,712,568	13,120,697	23,601,250	17,835,503	18,140,843	11,953,730
License Fees	603,000	535,693	723,703	37,899	604,000	375,494	431,844	225,909
Other revenue	30,089,000	19,946,983	21,018,308	2,312,782	22,995,000	21,229,464	20,205,294	3,384,107
<b>Total</b>	<b>84,805,750</b>	<b>63,774,854</b>	<b>66,052,484</b>	<b>48,508,639</b>	<b>71,250,250</b>	<b>63,390,816</b>	<b>63,474,385</b>	<b>50,786,269</b>

### 2.2.2 Performance in Revenue Collection

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	The outstanding assessment tax and rental income balance was Rs.35,222,523 and Rs.11,953,730 respectively at the beginning of the year under review, and at the end it was Rs.33,037,261 and Rs.13,120,697.	It is forwarded for further action to get recommendations for write off arrears of rent.	Arrangements should be made to recover the arrears of income as soon as possible.
(b)	The council had not taken any action regarding 58 shops in the old shopping mall which were in an unusable condition.	The action will be taken to proceed immediately	The property owned by the council should be used effectively.
(c)	There were 51 stalls whose contracts had expired, and the council had not taken action to update those contracts by the year 2023. Also, in respect of 79 shops, the shops were leased without specifying the contractual period.	The letters were sent to the lessees for the renewal of the lease agreements and that the agreement stated that the current lease agreements should be updated for 03 out of 03 years.	The action should be taken to updated agreements as per the Circular.

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| (d) | After the years 2007 and 2015, 55 and 51 shops owned by the council were not assessed and taxed respectively.  | Agreed with the audit observation.   | Assessment should be done as per the Circular .                         |
| (e) | The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities were Rs.55,104 and stamp duty was Rs.39,229,742. | The action will be taken to recover. | Arrangements should be made to collect the arrears of revenue promptly. |

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
02 tractors, a tipper and a hand tractor were sent to the council's vehicle repair yard for repair, however they remained idle without repairs even though a period of 08 years and 04 months had passed.	Regarding vehicles in dilapidated condition, further action will be done as soon as the engineer reports received.	Assets owned by the council should be repaired at regular intervals for effective utilization.

#### 3.2 Controversial Transaction

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Rs.23,609 had been paid from the Council fund as incentives for 05 officials including the secretary of the council for the collection of stamp duty of Rs.786,979 due to the council in the year 2020, contrary to the provisions of Section 159(1) of the Municipal Council Ordinance Act No. 18 of 1987.	The cash allowance of 3 percent of the amount received as decided by the Council was paid to the officers.	Actions should be taken as per the Act and non-compliant payments should be recovered.

### 3.3 Assets Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
A lease agreement had been entered into with a private company for a period of 50 years from 09.11.2013 to develop and maintain the land of the Inn belonging to the Urban Council, and even though 10 years had passed since the lease, without carrying out any development work in this land, it had idly existed.	The advice has been requested from the Head Office Legal Officer.	The land of the Inn should be used for development purposes.

### 3.4 Deficiencies in contract administration

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
An overpayment of Rs.157,148 had been made due to non-use of prescribed rates for the culvert construction work near the Patabandimulla Crematorium.	The details of price analysis and full specification of work description have not been provided to the council.	Appropriate rates should be used.

### 3.5 Human Resources Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
There was an outstanding staff loan balance of Rs.487,043 from 63 non-permanent employees who served, left service and were suspended.	The necessary arrangements are made to recover outstanding loan balances.	The action should be taken to recover outstanding staff loan balances.