

## **Pointpedro Urban Council - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Pointpedro Urban Council for the year ended 31 December 2023 comprising the balance sheet as at 31 December 2023 and income and expenditure account and 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 Councils Ordinance (Chapter 255) and National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Pointpedro 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 Principles.

#### **1.2 Basis for Qualified Opinion**

I expressed qualified opinion 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 Principles 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.

#### **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.

- 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.
- 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 Accounting Deficiencies

Audit Observations	Comment of the Councils	Recommendation
(a) Fourty two solar energy bulbs purchased for Rs.3,000,000 under funds of the Local Development Support Project in the year under review had not been accounted as assets.	Actions will be taken to rectify through the journal entries in the final accounts of the year 2024.	Financial statements should be prepared accurately.
(b) The value of 03 re-assessed assets had been understated by Rs.246,466,919.	-Do-	-Do-

## 1.7 Non-compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc. are shown below.

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliances	Comment of the Councils	Recommendations
(a) Section 160(1) of Chapter 255 of Urban Council	“K” form had not been issued for 1,846 properties out	The property owners are living abroad and in other areas so the forms could	Actions should be taken according to the provisions of

Ordinance Act, of 5,656 properties not be provided. the Act.  
that are to be  
recovered  
assessment tax by  
the Council in the  
year under review.

- (b) Financial Retention deposits Actions will be taken after Actions should be  
Regulations of the contractor approval. taken according to  
571(1), (2) and exceeding 02 years the Financial  
(3) of the amounting to Rs. Regulations.  
Democratic 47,779 had not been  
Socialist Republic settled.  
of Sri Lanka

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2023 amounted to Rs. 54,696,492 as compared with the excess of revenue over recurrent expenditure amounted to Rs.41,822,978 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 Council, 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	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	9,603,260	9,967,103	12,895,583	17,741,458	9,596,000	9,968,458	4,022,859	20,669,938
Rent	16,380,060	16,409,207	16,920,013	1,407,291	13,356,360	13,533,062	13,217,328	1,915,097
License Fees	1,203,315	1,171,725	1,171,725	-	839,050	1,067,930	1,067,930	-
Other revenue	51,309,144	57,968,102	58,206,907	1,952,101	26,392,149	37,217,803	36,049,302	2,190,906
<b>Total</b>	<b>78,495,779</b>	<b>85,516,137</b>	<b>89,194,228</b>	<b>21,100,850</b>	<b>50,183,559</b>	<b>61,787,253</b>	<b>54,357,419</b>	<b>24,775,941</b>

## 2.2.2 Performance in Revenue Collection

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Out of 4,691 rate and tax units, arrears of rates and taxes to be recovered for a period from 01 to 05 years totalling Rs. 14,154,102 and rent arrears for the last 01 to 10 years totalling Rs. 414,434 had not been recovered. Also, stamp duty receivable amounting to Rs.787,100 has been outstanding for more than 08 years.	Actions has been taken to recover the arrears.	Actions should be taken to recover arrears of revenue promptly.

## 3. Operating Review

### 3.1 Management Inefficiency

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The long-term tenancy agreements of 09 shops which have to be renewed once in 03 years had been implemented for the last 01 to 07 years without renewal.	The shop owners had requested time by specifying the reasons. Continuous action is in progress.	Actions should be taken to renew the tenancy agreements at regular intervals.

### 3.2 Assets Management

<b>Audit Observations</b>	<b>Comment of the Councils</b>	<b>Recommendation</b>
(a) Three lands totalling Rs.57,730,000 had been included in the financial statements as fixed assets, but they had not been owned by the council.	Action has been taken to acquire to the Council.	Ownership of the assets should be settled.
(b) Three shops and 02 vacant lands built in the year 2013 on the upper floor of Pointpedro new market complex for the purpose of lease out on long term basis are still unused.	Bids were invited for renting out of shops on several occasions but no one came forward. Also, action has been taken to obtain the land title deeds.	Actions should be taken to fully utilize the all sources of revenue of the council.

### 3.3 Human Resources Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Employee loan balance of 174,700 due from a retired officer had not been recovered.	After receiving the retirement gratuity, action will be taken to settle from the fund.	Outstanding loan balances should be recovered as per the provisions of the Establishment Code.

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Due to the fact that there were variations from 24 per cent to 51 per cent in 06 expenditure items and 56 per cent in one capital expenditure item when comparing the estimated expenditure with the actual expenditure according to the budget prepared for the year under review, the budget had not been used as an effective management control tool.	Action has been taken from the year 2024.	Needs should be identified and the budget should be prepared carefully.