

Boralesgamuwa urban council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Boralesgamuwa urban council for the year ended 31 December 2023 comprising the Statement of assets and liabilities as at 31 December 2023, Comprehensive Income Statement, statement of changes of equity/ net assets for the year, Cash Flow Statement 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 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 2023, 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 of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 The Audit Observations regarding preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The business tax income of Rs.1,321,200 received during the year had been debited to the cash account and the rates debtor account.	That the business tax income of Rs.1,321,200 received during the year has been correctly recorded.	That should be accounted correctly.
(b) The amount of Rs.471,733 which was adjusted to the excess depreciation account in the year 2022 related to cars and library books was not corrected in the preparation of the financial statements of the year 2023.	That will be corrected in the year 2024.	-Do-

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| (c) | The value of public toilet which was not accounted for in the year 2021 was Rs.1,196,310 and the value of the women's toilet which was built in the office premises at a cost of Rs.925,497 in the year 2022 was not accounted under buildings. | That will be capitalized. | Should be capitalized. |
| (d) | The allocation of audit fees had not been made for the year under review. | That the 12 lakhs of audit fees have been allocated for the year 2024. | Provisions should be made for audit fees. |
| (e) | Direct credits amounting to Rs.133,599 had not been identified and accounted. | According to the bank reconciliation of the general account as on 31.12.2023, the direct credit is Rs.133,598.85. | Direct credits should be identified and accounted. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) A difference of Rs.5,809,154 was observed when comparing the balances related to 04 account heads stated in the financial statements compared with the balances stated in the related documents/ reports.	That this will be done in the future.	The reasons for the changes should be found and corrected.
(b) There was a difference of Rs.12,256,410 when comparing the balances shown in the financial statements with the ledger relating to 02 accounting subjects.	That will be corrected.	-Do-

- (c) According to the schedule of debtors' receipts, fixed deposit interest receipts were Rs.829,289 and on copying to the ledger it was shown as Rs.571,907. Accordingly, a difference of Rs.257,382 was observed. That this will be done in the future. -Do-

1.6.3 Documentary Evidences not made available for Audit

	Subject	Amount Rs.	Non Presented Audit Evidence	Comments of the Council	Recommendation
(a)	Aurveda Stock account	306,889	Schedules	That this will be done in the future.	Schedules should be presented relating to account balances
(b)	Centralized debtors	12,399,853	-Do-	-Do-	-Do-
(c)	Receivable Service chargers	250,800	-Do-	-Do-	-Do-
(d)	Identified Capital Aids	1,848,300	-Do-	-Do-	-Do-
(e)	Suspense Account balance	152,658	Detail regarding write off	That this are being cleaning.	Accounting errors should be accurately identified and corrected.
(f)	Un identified account balance	224,217	-Do-	-Do-	-Do-

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 2023 .amounted to Rs.51,899,404 as compared with the excess of revenue over expenditure amounted to Rs.49,306,548 in the preceding year.

2.2 Revenue Administration

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

Information presented by the secretary 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	2023				2022			
	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 December	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 December
	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'
Rates income	28,000	27,962	30,017	14,870	27,300	27,664	32,023	27,136
Rent income	990	990	913	77	990	990	1,012	371
License Fees	750	307	307	-	750	238	238	-
Other Revenue	1,070	2,219	2,219	-	1,250	1,149	1,149	-
Total	30,810	31,478	33,456	14,947	30,290	30,041	34,422	27,507

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
(a) Rates and Taxes		
(i) The council had failed to collect Rs.14,870,430 or 55 percent of the assessment debtor balance of Rs.27,136,510 at the end of last year.	That 42% of last year's billed income has been collected so far.	Action should be taken to recover the outstanding income.
(ii) According to the Circular No. CD.2/3/101 dated 31 December, 1980 of the Assistant Commissioner of Local Government, the rates should be	That the new valuation work started in the year 2020 was stopped due to the covid epidemic, it will be implemented again in May	The circular should be followed.

charged after property assessed once in 5 years, but the council had not valued the property after the year 2009. 2023 and the valuation will be done on the new assessment values from January 2024.

- (iii) As at 31 December of the year under review, Rs.1,324,207 from 06 properties above Rs.100,000 and Rs.727,121 from 10 properties between Rs.50,000 and Rs.100,000 remained outstanding. That some properties have been collected money and are being processed in accordance with the circular of 31.12.2019, while for other properties, property prohibition is being done by issuing red notices. Action should be taken to recover the outstanding rates.

(b) Rent

- (i) As at 31 December 2023, the outstanding rent income of 18 shops for a period of 01 to 15 months was Rs.242,995, and the ownership of the non-paying shops had not been taken back to the urban council as per the agreement. During the preparation of the new contract, its contract period has been revised to 03 months. That the amount due from shop rent arrears will be collected in the future. Action should be taken to recover the arrears.
- (ii) The monthly rent for each building and land should be revised every three years from the date of agreement based on the valuation of the government valuer or a chartered valuer, but in the year under review, 48 shop rooms had been charged rent based on the monthly revised rates of the year 2009. Shop owners have expressed their unwillingness to enter into contracts due to lack of space and lack of proper maintenance in road development, and when the assessment discourages the shops from entering into contracts, they will do so and currently, about 80% of the shopkeepers have signed the new contract and it is appropriate to complete it in the future and then go for a new valuation. The property should be assessed and the rent should be revised once in 03 years.

3. Operational Review

3.1 Performance of functions assigned by the Act

Audit Observation	Comments of the Council	Recommendation
(a) In the year under review, Rs.14,903,707 were spent and 6865 tons of biodegradable waste and 1754 tons of non-biodegradable waste were disposed of in Karadiyana landfill. The council had not focused on reducing waste disposal costs by selling biodegradable waste or working to produce fertilizer through a composting project.	It is planned to generate income for the council by selling leaving garbage in the future and that the council does not have land to implement a compost project and that they will get income by selling non-biodegradable garbage.	Action should be taken to generate income from waste while minimizing waste costs.
(b) In the year 2023, an income of Rs.633,000 had been obtained by removing garbage from 26 business institutes but no by-laws had been enacted to collect the income.	That the by-law prepared with language to streamline the functions of solid waste management has been forwarded to the Local Government Commissioner's Office.	The By-laws should be adopted.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Two creditor balances worth Rs.40,610 from 2018 and 17 creditor balances worth Rs.613,957 from 2019 had not been settled.	That suitable actions will be taken to settle the creditor's balance in the future.	Action should be taken to settle the creditor balance.

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| (b) | The 04 fixed deposits worth of Rs.1,830,000 maturing in the year 2023 were invested at the same rate of 5.22 percent as before without making actions to invest at a higher rate of interest. | That re-opening of accounts under its approval will be done after directing the Management Committee to open at a new rate of interest. | Action should be taken to invest under the high interest rate. |
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3.3 Assets Management

Audit Observation

According to the fixed assets register deeds had been obtained only for one land out of 29 lands shown in the financial statements.

Comments of the Council

Measurement reports of 12 lands of the council have not been received. That the documents will be updated as soon as the reports are received

Recommendation

Action should be taken to obtain deeds or transfer orders.

3.4 Delays in projects, tasks or capital works

Audit Observation

- (a) Although the Urban Development Authority had built the multi-purpose building of the Borlasgamuwa Urban Council up to the second floor, slab level, the construction work had been temporarily stopped from August 2022. The building in that condition was temporarily handed over to the council on 09 February 2023 and by the last day of the year under review work had not resumed. Due to the delay in the resumption of construction, the expenditure of Rs.248,789,106 that had been spent on the building so far could be an idle expenditure and the steel bars of the building were also decaying.

Comments of the Council

The Urban Development Authority planned and carried out the construction, and considering the current situation in the country, the contract works have been reduced and completed based on the agreement of the Urban Development Authority and the contractor and it has been informed by the Urban Development Authority's letter dated 23.10.2023 that the remaining part will be prepared based on the revised plans and the prepared estimate, and that the Urban Development Authority and related institutions have been informed about the above matters.

Recommendation

Action should be taken to complete the work of the building.

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| <p>(b) Although an amount of Rs.24,000,000 was given to the council in the year 2023 for the implementation of approved projects of the Urban Development Authority from the joint account maintained by the Urban Council with the Urban Development Authority, only 02 projects of Rs.10,000,000 had been implemented from the said funds.</p> | <p>That the work of 02 projects worth of Rs.10,000,000 has been completed in the year 2023 and the projects related to Rs.14,000,000 are scheduled to be implemented in the year 2024.</p> | <p>Actions should be taken to implement the relevant projects.</p> |
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3.5 Vehicle System Management

Audit Observation

As of the last day of the year under review, the ownership of 06 vehicles registered in the name of other organizations used by the council had not been transferred to the urban council.

Comments of the Council

That the transfer of ownership to the urban council is in progress.

Recommendation

Actions should be taken to take over the ownership.