

Seethawakapura Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Seethawakapura 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 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 Seethawakapura 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 Non-compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non-compliance with reference to relevant standard	Comments of the Council	Recommendation
(a) As per No. 3.28 of the standard and as per EG 6.2 of the explanation and guidance in Appendix 2, while calculating the cash flow from operating activities Rs.3,857,151 had been added without deducting Rs.3,485,722 as investment income therefore the cash flow increased by Rs.7,342,873 and due to the addition of the annual depreciation to be collected Rs.21,995,916 instead of Rs.23,375,705, the cash flow had been understated by Rs.1,379,789.	That corrections will be done in preparation of financial statements as on 31.12.2024.	Cash flow statements should be prepared and presented accurately.
(b) According to No. 3.29 of the standard and according to EG 6.3 of the explanations and guidelines in Appendix 2, in calculating the cash flow from investment activities, Rs.2,109,699 should be added as interest received, but due to the addition of Rs.3,857,151, the cash flow was more by Rs.1,747,452 and Although Rs.4,228,672 spent for the purchase of property and equipment should be reduced, due to the addition of Rs.6,159,751, the cash flow had been more stated by Rs.10,388,423.	-do-	-do-

- (c) As per No. 3.30 of the standard and as per EG 6.4 of the explanation and guidance in its Appendix 2, while calculating the cash flow from financing activities, although the long-term borrowing repayments should be reduced by Rs.7,221,607, due to the reduction of Rs.414,925, the cash flow had been over state by Rs.6,806,682.
- That corrections will be done in preparation of financial statements as on 31.12.2024.
- Cash flow statements should be prepared and presented accurately.

1.6.2 Accounting Deficiencies

Audit Observations	Comments of the Council	Recommendation
(a) In the year 2022, the error of over-depreciating fixed assets by Rs.1,986,381 was corrected in the year under review, the asset account had been debited and the depreciation allocation account had been credited.	That corrections will be done in preparation of financial statements as on 31.12.2024.	Accounting should be done correctly.
(b) As on 31 December of the year under review, the balance of the vehicle depreciation account was 2,120,898, but the value was shown as Rs.14,328,438 in the financial statements that property, plant and equipment had been understated by Rs.12,207,540.	-do-	-do-
(c) Although vehicle depreciation in the year under review was Rs.3,761,378, but it was accounted as Rs.2,380,887 the surplus for the year had been overstated by Rs.1,380,491 in the financial statements.	-do-	-do-
(d) As on December 31 of the year under review, the value of receivable fixed deposits was Rs.28,294,770 but it was stated as Rs.28,364,065 in the financial statements the fixed deposit value had been overstated by Rs.69,295.	-do-	-do-

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| (e) | The receivable fixed deposit interest income as at 31 December of the year under review was Rs.1,553,645, but it was stated as Rs.1,042,802 in the financial statement the receivable fixed deposit interest income was understated by Rs.510,843. | That corrections will be done in preparation of financial statements as on 31.12.2024. | Accounting should be done correctly. |
| (f) | Although the fixed deposit interest income for the year under review was Rs.3,485,723, but it was stated as Rs.2,835,419 in the comprehensive income statement the revenue from exchange transactions was understated by Rs.650,304. | In addition to fixed deposit interest income, the employee loan interest is also included in this income subject. Accordingly, the revenue from exchange transactions has not been over-accounted for in the comprehensive income statement. | Accounting should be done correctly. |

1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions

Followings are the cases where non-compliance with laws, rules, regulations and management decisions

Reference to rules, regulations and management decisions	Non-compliance	Comments of the Council	Recommendation
(a) Urban Council Ordinance Section 132	For the purpose of establishing or maintaining any public welfare service which is authorized to be established or maintained under the Ordinance, although the urban council may enter into an agreement, the revenue collection of two toilets in the central bus stand area was assigned to an outside party without a written agreement.	That out of the two toilets had been given as per the order of the Chairman located in the Central Bus Stand the toilet facing the private bus stand in 2018 and the toilet facing Pugoda Bus Stand on 12.06.2019.	A written agreement should be followed.

- (b) Treasury Circular No. 02/2017 dated 12 December 2017 In the year 2021, the Mitsubishi double cab received from Mulleriya Kotikawatta pradeshiya sabha had not been taken over in the name of the council Action are being taken to handed over to the council by the Secretary of the Provincial Councils and Local Government Ministries. Taken over of assets should be done promptly.

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.5,792,630 as compared with the excess of revenue over expenditure amounted to Rs.15,143,714 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 the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sours	Estimated revenue	2023			2022			
		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
i. Rates income	32,285	33,816	21,243	12,573	32,211	32,142	22,543	28,955
ii. Rent income	56,454	41,882	37,640	4,241	41,165	31,367	33,607	4,490
iii. License Fees	1,297	569	569	0	1,293	237	1,095	-
iv. Other Revenue	46,620	34,710	16,736	17,974	13,407	30,821	13,206	-
Total	<u>136,656</u>	<u>110,977</u>	<u>76,188</u>	<u>34,789</u>	<u>88,076</u>	<u>94,567</u>	<u>70,451</u>	<u>33,445</u>

2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the council	Recommendation
(a)	The arrears balance of rates tax revenue to be collected to the council was Rs.27,254,299 in the financial statements as at 31 December 2023	That recovered have been done 27.03.2024 up to Rs.532,223 out of Rs.27,786,522 outstanding till 31.12.2023 and actions have been taken to give arrears lists to the Property Prohibition Officers to recover the remaining arrears.	Action should be taken to recover the outstanding rates.
(b)	(i) The outstanding rent income was Rs.2,580,984 at the end of the year under review.	Kindly inform that further actions are being taken to collect the arrears	Action should be taken to collect the outstanding shop rent.
	(ii) The outstanding rest house rent to the council was Rs.9,181,373 at 31 December 2023.	That it has been agreed that these payments will be made as soon as possible.	Action should be taken to collect the outstanding rest house rent.
(c)	(i) The outstanding fine income was Rs.215,643 as on 31 December 2023.	The arrears are being collecting and, Rs. 84,012 have been collected as on 31.12.2023 in the months of January and February 2024 out of the outstanding amount of Rs.299,655.	Action should be taken to collect the outstanding fines.
	(ii) The entertainment tax of Rs.516,862 had not been settled as at 31 December.	There is no such arrears according to the entertainment tax register.	Appropriate action should be taken.
	(iii) The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December 2023 were Rs.299,655 and stamp duty was Rs.14,368,529.	That these amounts are estimated while preparing the budget estimates and that it is not possible to specify the deficit.	Action should be taken to identify the relevant fees.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) According to Section 6.1 of Chapter XIX of the Establishment Code, the period of residence of a government quarters should be 05 years, but in 07 quarters where administrative rights have been transferred to the Urban Council the only officers have been residing for a period of 07 years to 29 years and the contract period of those officers is 02 years to 06 years. The respective agreements had not been updated although 06 years had passed.	It has been informed that the employees are residing in 06 out of 07 quarters without an agreement beyond the contractual period and the Divisional Secretary is working to transfer the legal rights of these quarters and that the necessary actions are taken to remove the employees residing in quarters for more than 5 years and to provide quarters for the employees who are on the waiting list.	The council should take over the legal ownership of the quarters and take action to update the agreements.
(b) An officer retired on 02 January 2022 has been residing for more than 02 years without handing over the quarters and action had not taken as per the provisions (in the Local Government Quarters Act No. 42 of 1978) to get the quarters back.	In his request for retirement, he was informed to hand over the quarters to the council, the payment of his pension has also been delayed due to non-handover. Also, necessary actions are being taken to transfer the legal rights of the lands where these quarters are located to the council.	Action should be taken to take over the ownership of the quarters.
(c) The private bus parking fares was Rs.230,700 Since 1988.	That this amount has been mistakenly billed and has been identified as an irrecoverable balance and referred to the Assistant Commissioner of Local Government for write-off.	Correctness of balances should be verified.

3.2 Operation Inefficiency

Audit Observation	Comments of the Council	Recommendation
(a) According to section 4 of the by-law on parking of three-wheelers as per paragraph 12-325/13 related to the	After adopting the three-wheeler by-laws, 20 associations were registered in the council under	The council should take actions to collect revenue.

imposition of motor vehicle charges for the year 2023 in section iv (b) of gazette notification No. 2311 dated 16 December 2022 Rs.250, Rs.650 quarterly and Rs.2000 per year for three-wheeler parking permit fee should be charged but the Council had not proceeded to collect any fees for the year under review. The number of three-wheelers registered in the council was 623 and due to this the council lost an annual income between Rs.1,246,000 and Rs.1,869,000.

the 13 vehicle parks. If the reports of the three wheeler associations are called and if the associations are active, they will issue permits and charge fees and the police will take action to remove the three wheelers that do not take permits.

- (b) In terms of paragraph 12-325/8 of section iv (b) of Gazette Notice No. 2311 dated 16 December 2022, the charges for parking of vehicles outside the reserved private vehicle park had been determined, but it had not been followed. That parking spots will be identified and charges will be collected from those spots as well as from the additional parking lots that will be established after the construction of the new market complex. Parking fees should be collected properly.
- (c) For 35 U shops located on the upper floor of the bus station, A tender amount of Rs.38,511,660 was approved and an amount of Rs.9,571,107 was paid to the council from those tenderers from the year 2012 to the year 2018, but by 10 October 2023, even though 11 years have passed since the construction of the shops, the construction had not started. That the key money of tender for the construction of shops on the upper floor (U) of the bus stand has been collected. The construction work should be completed soon.
- (d) Although the minimum tender price for the 11 shops on the upper floor of the public bus station was determined at Rs.4,600,000 in the year 2022 and assessed at a monthly rent of Rs.70,000, the council has not taken actions to lease these shops since 2012. The council had lost the income it could have taken. Although tenders were made for these 11 shops since 2017, no tenderer came forward for it. Also, as per Local Government Commissioner's circular LGD/13/2016(I) it is not possible to lease without tender procedure, so it is planned to start a computer class run by the urban council.. Shops should be leased to earn income.
- (e) According to the Western Local Government Commissioner's Circular No./13/2016 dated 09 November 2016, the monthly rent for every building and land that is leased in relation to the local government should be revised every The valuation department has been requested to provide the relevant new shop rent valuation before the lease period agreed for the shop rooms expires, but the valuation has not been The instructions of circular should be followed.

three years from the date of lease based on the assessment of the government appraiser or a chartered appraiser. However, the valuation reports of 214 shops owned by the council had exceeded the period of 3 years, and the council had lost rent income that could have been obtained further due to the fact that rent income had been obtained based on those valuation reports.

submitted so far.

3.3 Disputed transactions

Audit Observation	Comments of the Council	Recommendation
<p>Due to the death of the lessee of the R 09 shop in Avissawella New Market complex, the commercial rights of this shop had been informally transferred to a third party without a lease agreement and the relevant monthly rent had not been collected since October 2017. While the Assistant Commissioner of Local Government had given instructions to select a new lessee through procurement to transfer the lease right, the Local Government Commissioner's Circular LGD/13/2016 (i) dated 03 December 2020 had been violated to give an interim lease. Accordingly, the party who was using the shop room after charging a transfer fee of tax rent Rs.8,006,180 of 60 times the monthly tax rent charged on the annual valuation arrears and a security deposit of Rs.72,000 was contracted by the council to the lease base for five years from 21 June 2023.</p>	<p>Regarding the shop room, an investigation and court proceedings are being carried out by the Commission of Inquiry into allegations of bribery and corruption, and the Local Government Assistant Commissioner's Office was asked about the way to proceed in this regard and the validity of the agreement, and that further actions will be taken regarding the shop room.</p>	<p>Proceed according to legal advice.</p>

3.4 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Council	Recommendation
<p>The three-wheeler was idle for 07 years.</p>	<p>That the Assistant Commissioner of Local Government has been informed on 21.12.2023 to take appropriate decision regarding disposal as the period of 10</p>	<p>The disposal activities should be done without delay.</p>

years has passed since its manufacture.

3.5 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) 117 properties from the 134 property items identified in the board of survey reports had not been taken over to the name of the council as at 31 December 2023.	Among the properties identified as owned by the urban council the acquisition of illegal properties is being carried out.	Action should be taken to acquire in legally.
(b) A sample of 17 land buildings reserved for public facilities within the council's area had been done physical inspection, out of which unauthorized constructions had been carried out in 03 and the council had not taken legal action against the relevant parties.	It is in a problematic situation to carry out further work due to the council does not have the necessary documents to take legal action against the relevant parties.	Legality of lands with common facilities should be verified

4. Accountability and Good Governance Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
The percentage of target achievement had not included in the performance report for 29 out of 63 performance indicators.	That these goals will be achieved in the year 2024.	Action should be taken to achieve the goals