

Watthegama Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Watthegama Urban Council for the year ended 31 December 2023 comprising with the Balance Sheet as at 31 December 2023 and Income and Expenditure Account, 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 Watthegama Urban Council as at 31 December 2023, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices

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 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 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 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 includes 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 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 Policies

	Audit Observation	Comments of the Council	Recommendation
(a)	An amount of Rs.168,552 incurred for the repair of 02 garbage carts during the year under review was not accounted for.	It will be corrected in the future.	It should be correctly accounted for.
(b)	The stamp duty revenue for the year under review had been under-accounted by 5,253,100	That was difficult to predict.	It should be accurately identified and financial statements prepared.
(c)	Rs. 440,127 received in the reviewed year from the sale of garbage carts in the previous year had been considered and accounted as income of the reviewed year.	It will be corrected in the future.	It should be correctly accounted for.
(d)	Although the stall rental fine income related to the year under review was Rs.165, 946, due to accounting twice, Rs.165,946 had been over-accounted.	-Do-	-Do-
(e)	During the year under review, the capital expenditure incurred for the purchase of fixed assets, had been understated by Rs.191, 468 in the financial statements.	It had not been adjusted to Income and Expenditure Account.	It should be recorded in the Income and Expenditure Account.
(f)	The stall rental income received for the coming year had been under-accounted by Rs.297,125.	It will be corrected in the future.	It should be correctly accounted for.

(g)	Last year, Rs. 2,500,000 was falsely stated under creditors as donating school books to children with economic difficulties.	That the project stopped with the end of the term of the urban council.	It should be correctly accounted for.
(h)	Rs.1, 000,000 was falsely stated under the creditors under the repair of a jeep in the year 2021 without any basis.	It has been sent for repair.	-Do-
(i)	08 units of vehicles and machinery worth Rs. 1,071,429 which were auctioned and removed from use in previous years, were further presented in the accounts.	Action will be taken to correct	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.405,308 when comparing the balances related to 05 accounting subjects shown in the financial statements with the balances shown in the source documents as at the end of the reviewed year.	It will be looked into in the future.	The difference should be identified and accounted for.

1.6.3 Documentary Evidences not made available for Audit.

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of existence confirmations, confirmation documents, balance confirmations related to 09 assets amounting to Rs.8,420,720 in the financial statements, they could not be verified satisfactorily.	The documents will be correctly identified and presented in the future.	Documents and files needed to verify the balance, should be prepared.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows

	Reference to Laws, Rules Regulations	Non-compliance	Comments of the Council	Recommendation
(a)	Section 118 of the Urban Council Ordinance (255 Chapter).	Provision of public toilet facilities and proper maintenance of public and private toilets were not carried in the area of authority.	That the relevant property belongs to the Railway Department.	It should be complied with Act.
(b)	Urban Development Authority Act No. 41 of 1978 as amended by Gazette No. 2235/64 and Extraordinary Gazette dated 08 July 2021	No action was taken regarding 04 buildings that were constructed without obtaining a development permit.	The concerned parties have been informed to make it legal.	The provisions of the Act should be followed.
(c)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
	Financial regulation 571(3)	27 lapsed deposit balances of Rs.97,413 were not settled.	It will be complied with financial regulation	It should be complied with financial regulation
(d)	Section 06 of Central Provinces, Local Government Commissioners Circular No. 2016/3 dated 17 March 2016	Despite receiving a new assessment from the assessment department on 22 June 2022, the contracts of 14 stalls had not been renewed.	It would not agree to the new agreement.	The circulars should be followed.

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.15,527,690 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 13,437,587 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 of the Council 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	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	5,670,000	5,646,017	6,126,811	2,709,147	5,631,500	5,733,379	4,999,314	3,189,941
(ii) Rent	100,000	8,117,843	8,131,162	185,808	10,000	8,257,365	8,063,755	199,127
(iii) License Fees	201,000	1,263,865	1,235,925	30,000	251,000	1,104,785	1,102,725	2,060
(iv) Other revenue	1,875,000	28,146,281	25,825,069	10,393,112	1,875,000	25,739,328	20,162,971	8,071,900
	<u>7,846,000</u>	<u>43,174,006</u>	<u>41,318,967</u>	<u>13,318,067</u>	<u>7,767,500</u>	<u>40,834,857</u>	<u>34,328,765</u>	<u>11,463,028</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 the year under review, the outstanding assessment tax balance was Rs.2,709,148, and a total assessment arrears of Rs.559,591 was uncollected from 30 assessment units where the assessment tax arrears per unit exceeded Rs.10,000.	That the arrears be recovered through property seize and field duties.	Arrears of assessment tax should be recovered.
ii.	As per Section 20 of the Assessment and Valuation Ordinance No. 30 of 1946, although assesment should be conduct once in 05 years, the assessment tax was levied for the year	The assessment revision will be carried out.	It should be complied with the provisions of the Act.

under review as per the assessment report dated January 02, 2015.

(b) Other Income

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| (i) | At the end of the year under review, the balance of outstanding water charges was Rs.9,100,788, and a total of Rs.6,611,479 was not collected from 570 water charge units where the water charge arrears exceeded Rs.5,000 per unit. | Action will be taken to recover the arrears. | Arrears of water charges should be charged. |
| (ii) | Water meters were not installed for 757 water consumers and a fixed fee of Rs.400 for households and Rs.550 for businesses had been charged from these customers. | In the future, water meters will be installed and charges will be charged. | Water meters should be installed and charges should be charged. |
| (iii) | Although there were 2368 water consumers related to the area of authority, water meters related to 760 water supplies were not installed and only the fixed fee was charged. Out of which 101 water supplies exceeded Rs.10,000 and amounted to Rs.1,640,602. | The water meters are not installed. | Water meters should be installed and charged. |

(c) Court Fine and Stamp Fees

Court fines amounting to Rs.492,325 and stamp duty amounting to Rs.800,000 were due from the Chief Secretary of the Provincial Council and other authorities on December 31 of the year under review.	The Divisional Secretariat office and the Chief Secretariat office have been informed.	Outstanding stamp duty and court fines should be collected.
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3. Operational Review

3.1 Fulfillment 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.

Audit Observation	Comments of the Council	Recommendation
(a) A bulk of non-biodegradable garbage, including PET bottles and polythene in garbage separation site was piled up in the paddy field at the edge of land where the waste yard is situated and by soaking this water on rainy days, the stink was spreading, damaging the environment.	A garbage yard will be built next year.	Waste should be managed.

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| (b) | As per the provisions of Section 118 of the Urban Council Ordinance (Authority 255), no arrangements were made to maintain a gully service for the disposal of sewerage from the houses in the area. Due to this, various people had carried on these works informally without permission. | The private institutions and other Council perform the relevant work. | It should be act according to the provisions of the Act. |
| (c) | According to the water sample test reports of 03 water projects belonging to the council, the concentration of E Coli bacteria ranged from 944 to 2496 and the coliform bacteria ranged from 56 to 190. According to Section 104 of the Urban Council Ordinance (Authority 255) the council should act as the public health authority, but without any concern about it, contaminated water, which is unsuitable for drinking was distributed to the public | The tests will be conducted in the future. | Clean drinking water should be distributed. |

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The debtor balance as on December 31 of the year under review was Rs.2,488,294, out of which the total for the period of 03 to 05 years was Rs.690,876, and the outstanding balance for more than 05 years was Rs.1,500,976.	These balances are investigated and write off.	The balance due should be duly written off or recovered.
(b)	The total of 02 account balances payable as on December 31 of the reviewed year was Rs.6,477,189, and according to the time analysis presented, the account balances of Rs.4,292,585 relating to the period between 1 and 5 years had not been settled.	The Local Government Department has been informed.	Arrangements should be made to settle the payable balances.
(c)	08 houses were built illegally and used for residence in Matale Road Dunoya Kumbura / Pussepitiya or Mianpahe Watta Garbage Yard.	It will be taken over in the future.	Illegal occupant should be removed and assets should be taken over.
(d)	In relation to road damage in the year 2021, Rs.221,450 owed to the Road Development Authority was not settled.	It will be corrected in the future.	Deposits should be settled.

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| (e) | In relation to the backo machine that accident in 2018, the Financial Regulation 104(4) investigation was not completed and due to this, it was allowed to decay without repair for over 5 years. | F.R 104(4) investigations have been carried out. | The recommendations should be implemented and the machine should be repaired and put into use. |
| (f) | In a part of the Delgahalanda land belonging to the council, 44 people had acquired the land and settled illegally. | It will be released without any loss to the council. | Actions should be taken to remove illegal residents. |

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
(a) 07 vehicles and machinery worth Rs.5,778,125 remained idle and underutilized for a period between 04 and 15 years.	It has been sent for repair and other vehicles are parked.	Action should be taken to auction or use.
(b) It was not possible to check the accuracy of all the assets as per the inventory register maintained by the council, due to the fact that a master inventory register was not maintained up-to-date even though the goods had been issued to the officials.	The documents will be checked.	Documentation should be maintained up to date.

3.4 Delays in Project, Activities or Capital work

Audit Observation	Comments of the Council	Recommendation
27 development proposals of Rs.6,567,050 allocated from the annual budget were not implemented, and 47 projects worth Rs.11,347,025 that were not budgeted had been implemented.	That was done on council decisions.	Priority should be given to annual budget

3.5 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
Comparing the approved staff with the actual staff, there were 09 vacancies in 04 posts and 05 excess in 02 posts.	Action will be taken to fill the vacancies and the surplus posts are development officers.	Relevant work should be done according to the approved staff.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation	Comments of the Council	Recommendation
The council does not have a formal program for waste water management and the sewage system was not maintained.	A sewage system is expected to be prepared.	A formal program should be prepared.

4.2 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
According to the provisions of the Sustainable Development Act No. 19 of 2017, although the council had identified sustainable development objectives and targets, it had not taken steps to achieve them.	The related activities will be carried out in the future.	Sustainable development indicators should be identified and goals and targets should be achieved.