

## **Chilaw Urban Council - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Chilaw Urban Council including the financial statements for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, statement of financial performance, statement of changes in equity, cash flow statement for the year then ended including material accounting policy information, was carried out for the year then ended, 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 Chilaw 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**

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 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 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 related to the preparation of financial statements

#### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) 09 fixed assets worth Rs.1,499,900 had not been accounted.	Actions will be taken to make adjustments from the last account in 2024	Actions should be taken to make corrections through journal entries.
(b) Actions had not been taken to make adjustments to the accounts of Rs.2,027,409 which was the stamp duty over -allocation value related to the year 2023.	-Do-	-Do-

#### 1.6.2 Un-reconciled control accounts or records

Audit Observation	Comments of the Secretary	Recommendation
There was a difference of Rs. 6,939,268 between the balances of the financial statements and schedules relating to 06 accounting subjects.	Actions will be taken correct the changes during the preparation of the final accounts in 2024.	Actions should be taken to correct documents and arrangements should be made to account the correct balance.

### 1.6.3 Absence of written evidence for audit

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
Due to non-submission of required information, 07 accounting subjects amounting to Rs.339,468,688 could not be satisfactorily verified during the audit.	2024 Actions will be taken to correct by the final account in 2024	Actions should be taken to submit the schedules relating to the accounts along with the account.

## 1.7 Non-compliances

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

Following are the cases where laws, rules, regulations and management decisions were not complied with

<b>Reference to laws, rules, regulations etc.</b>	<b>Non-compliances.</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a) Financial Regulation 571(2) Sri Lanka democratic Socialist Republic of Sri Lanka	Actionas had not been taken to act in respect of 02 years past general deposits according to the Financial regulations.	Actions will be taken to make adjustments from the final account of 2024.	Actions shold be taken to proceed in accordance with the Financial Regulations
(b) Urban Councils Orinance Section 170	Actions had not been taken to act outstanding assessment tax and arrears of rent for more than 01 years according to the provisions of the Act.	Actions were not taken to foreclose the property and the collection of arrears will be carried out.	Actions should be taken to proceed according to Urban Councils Ordinance.
(c) Local Government Service Pension Orders ,1975 and the amendment published in Government extraordinary Gazette No. 320/8 dated 07 June 1978 Section 36 of the Local Government Pensions Ordinance	The monthly pension contributions had not been paid properly.	Actions will be taken to pay the outstanding amount after receiving the information.	Actions should be taken to Proceed as per gazette.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements submitted, the income exceeding the recurring expenditure of the council for the year ended 31 December 2023 was Rs. 49,142,527 and correspondingly the income exceeding the recurring expenditure of the previous year was Rs.10,554,339.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

The following is the information about the estimated income, billed income, collected income and outstanding income presented by the council in relation to the year under review and the previous year

Source of income	2023				2022			
	Estimated income	Billed income	Collected income	Total Deficit as on 31 December	Estimated income	Billed income	Collected income	Total Deficit as on 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assessment & Taxes	23,782	23,624	11,866	53,018	23,688	23,479	12,861	51,260
Rents	43,837	50,073	29,882	44,039	45,631	41,638	35,836	47,957
License Charges	395	315	315	-	1,406	15,441	15,441	-
Other income	<u>16,553</u>	<u>25,901</u>	<u>24,403</u>	<u>292</u>	<u>3,454</u>	<u>10,126</u>	<u>5,710</u>	<u>=</u>
Total	<u>84,567</u>	<u>99,913</u>	<u>66,466</u>	<u>97,349</u>	<u>74,179</u>	<u>90,684</u>	<u>69,848</u>	<u>99,217</u>

#### 2.2.2 Performance in the Revenue collection

	Audit Observation	Comments of the Secretary	Recommendation
(a)	Actions had not been taken to collect the arrears of assessment as on 31 December of the year under review was Rs. 53,018,564 and the rent Rs. 45,056,428.	Actions will be taken to collect the outstanding amount of money.	Prompt actions should be taken to recover the outstanding amount of money.
(b)	The Stamp duty of Rs.70,541,829 should have been collected from the Chief Secretary of the Provincial Council on 31 December 2023. Out of that, the outstanding balances were Rs.28,669,800 for stamp duty less than 01 year and Rs.41,872,029 for less than 03 years for more than 01 year.	Actions will be taken to make adjustments from the final account of 2024.	Actions should be taken to recover the arrears as soon as possible

### 3. Operational Review

#### 3.1 Management inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) In respect of the water pump purchased on 1 October 2021 for Rs.27,500 and installed in the public toilet of Chilaw Public Market missing on 11 July 2022, although a complaint was filed with the police on the same day and initial reports and final reports had been filed, no further action had not been taken in this regard	That further actions will be taken by referring to the committee.	Actions should be taken proceed as specified in Financial regulations after the final report.
(b) Under the library automation project in 2018, 08 devices provided with Koha software had been disabled for 6 years and actions had not been restored.	As this software is being implemented in the Dunkannawa Public Library, we take action to consult with that library.	Actions should be taken to activate the software immediately.
(c) The value of accounts receivable as on 31 December of the year under review was Rs.259,977,260. The value of the balances in it exceeding 03 years was Rs. 125,949,156 and no action had not been taken to recover these arrears.	Actions will be taken to recover the arrears.	Arrangements should be made to recover the due balance promptly.
(d) As on 31 December of the year under review, the value of the account balance was Rs.42,753,233 and the value of the balances exceeding 03 years was Rs.15,269,396.	Actions will be taken to settle in the preparation of the final accounts in 2024.	Prompt actions should be taken to settle the loan balance.

#### 3.2 Operational inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) Although Shirley Koraya Hall had been given to Chilaw Hospital in 2017, no agreement was reached and, it had not been returned to the council by 2023. the outstanding rent was Rs.3,646,100 from the year 2017 to 31 May, 2023.	Since the agreement has been announced to enter into a contract, approval and instructions have been requested from the Commissioner of Local Government.	Prompt actions should be taken to recover the arrears.

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| (b) | More than 03 years had passed since the Council handed over the Chilaw Marians indoor stadium building to Chilaw Hospital for a Covid treatment center in March 2020 and actions had been to neither to take it back nor enter into an agreement. | Actions will be taken to enter into the contract based on the recommendations and approval received in the letter directed to the advice and approval of L.G. Commissioner. | Arrangements should be made to reclaim the building or enter into a formal agreement with the council |
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### 3.3 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Secretary	Recommendation
Out of the 21 air conditioners installed at a cost of Rs.2,842,210 in the year 2018, 07 machines worth Rs.692,337 remained idle due to lack of sufficient power capacity to run them.	According to the request made by the Pambala, Kakkapallia audit sub-office, necessary instructions have been requested to provide those machines and actions will be taken based on the solutions received for that.	Actions should be taken to get the most out of the physical resources purchased from the Council Funds

### 3.4 Asset Management

Audit Observation	Comments of the Secretary	Recommendation
38 lands enjoyed by the council including playgrounds and cemeteries within the jurisdiction of the council had not been taken over.	At present, arrangements are being made to take over land 09 after paying the relevant preliminary fees.	Urgent arrangements should be made to take over the legal rights of the respective properties.

### 3.5 Deficiencies in contract administration

Audit Observation	Comments of the Secretary	Recommendation
Due to defects in the quality of construction such as the wires on the concrete slab of the first floor were exposed and decayed and were in an unsafe condition, water was leaking from the concrete slab on the first floor, the wires were exposed and decayed on the concrete pillars and falling the ceiling of the first floor after a few years of the completion of new Shopping complex building on 02 December 2008, the total amount of Rs.62,344,280 spent	It is to be kindly informed that the date of completion of construction on 10/12/2019 at a cost of Rs.62,344,280 is not correct and the date of completion of the building and handed over to Chilaw Municipal Council is 02/12/2008	Under the supervision of the concerned officials, the constructions should be done with proper condition and quality.

on the construction of the second floor of the building had been idle.

### 3.6 Human Resource Management

#### Audit Observation

As of 31 December 2023, there was a shortage of one position in the executive grade of the council, an excess and a shortage of 01 position in the tertiary grade, a shortage of 42 employees in the secondary grade positions and an excess of 11 employees and a shortage of 78 employees in the primary grade positions.

#### Comments of the Secretary

Recruitment has been stopped as per National Budgetary Circular No. 03/2022.

#### Recommendation

Actions should be taken to identify the number of employees required by the council correctly and arrangements should be made to approve that number of employees.

### 3.7 Vehicle Systems Management

#### Audit Observation

Although the valuation report of 05 vehicles proposed to be disposed on 30 September 2022 has been submitted for the approval of the Local Government Commissioner, the approval has not been received so far.

#### Comments of the Secretary

The work of the assessment committee has not been done.

#### Recommendation

Actions should be taken to assess the vehicles and dispose of them promptly.

## 4. Accountability and good governance

### 4.1 Annual Action Plan

#### Audit Observation

Although an amount of Rs. 6,269,066 had been spent to fulfill 20 different tasks mentioned in the action plan, the desired level of completion had not been achieved.

#### Comments of the Secretary

The expected level of completion could not be achieved as expenditure had to be controlled as per public expenditure control circular.

#### Recommendation

Internal audit should be done covering all sectors.



#### 4.2 Internal Audit

Audit Observation	Comments of the Secretary	Recommendation
The Council's internal audit had not focused on areas such as industrial inspection, library inspection, street lighting installation and fixed asset documentation and settlement of long-standing receivables and payables.	Necessary measures will be taken to strengthen the internal audit in the year 2024.	Adequate internal audit should be conducted to cover all activities of the Council.

#### 4.3 Budetary Control

Audit Observation	Comments of the Secretary	Recommendation
Due to non-preparation of realistic and accurate estimates, Rs.2,337,000 total allocations for 25 expenditure items and Rs.33,062,380 allocated for 25 expenditure subjects were saved in the range of 50 to 98 percent.	As a project budget is being prepared, allocations are made for each head of project's cost and the expected level of completion could not be achieved as expenditure had to be controlled according to the public expenditure control circular.	Operational activities should be planned in such a way as to achieve the budgetary targets.

#### 4.4 Sustainable Development Goals

Audit Observation	Comments of the Secretary	Recommendation
The council had identified 13 sustainable development goals and planned to implement 66 activities to achieve those goals in the year 2023. Out of those activities, 25 were not fully completed and the progress of 41 activities ranged from 05 percent to 98 percent.	The expected level of completion could not be achieved as expenditure had to be controlled as per the public expenditure control circular.	Efforts should be made to achieve sustainable development goals and targets.