

Nawalapitiya Urban Council - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nawalapitiya Urban Council for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 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 sub-section 10 (1) of 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Nawalapitiya Urban Council as at 31 December 2024, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices

1.2 Basis for Qualified opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 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 on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
Remittances of Rs. 736,000 received by the bank in 2019 had not been accounted for.	Action will be taken to identify and settle.	Remittances should be identified and accounted for.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 566,217, when comparing the balance shown in the General Stores Account in the balance sheet prepared as at the end of the year under review with the schedules.	Action will be taken to correct it in the future.	Account balances should be reconciled with the relevant schedules and corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
As the documents, schedules, balance confirmations, files, etc. related to 8 asset balances totaling Rs. 12,770,525 as shown in the financial statements as at the end of the year under review were not submitted, they could not be satisfactorily verified.	Documentary evidence will be presented in the future.	Relevant documents, files and schedules should be maintained to verify each account balance.

1.7 Non- Compliances
Non-compliance with Laws, Rules, Regulations and Management Decision

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) Parliament Acts				
	Urban Councils Ordinance No. 18 of 1987 (Chapter 255)			
	72(1) and 72(4)	Action had not been taken regarding 06 unauthorized constructions identified by the Council during the year under review.	The agreements will be followed and legal proceedings will be carried out.	Legal action should be taken regarding unauthorized construction.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
(i)	Financial Regulation 371(2)	Although an advance should be settled immediately after the completion of the work for which it was given, it was observed that 03 advances of Rs.126,532 received since 2016 have not been settled.	Action will be taken to settle.	Advance payments should be settled immediately upon completion of the work.
(ii)	Financial Regulation 571(3)	Action had not been taken to settle 58 lapsed deposits worth Rs. 2,778,645 relating to the period from 2016 to 2024.	- Do -	Lapsed deposits should be settled.

- (c) Commissioner of Local Government Circular No. 1988/22 dated 07 May 1988
- Although all immovable properties within the council area should be assessed at least once every 5 years to levy rates, the Urban Council had levied rates for the year 2024 based on the assessment carried out in 2009, even though 15 years had passed since the last assessment.
- The valuation activity is being carried out by the Valuation Department.
- Property should be assessed once in every 5 years and rates should be levied.

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 2024 amounted to Rs. 67,466,349 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 44,102,142 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.

2024					2023			
Source of Revenue	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	15,261,500	14,871,800	13,848,229	18,855,298	14,422,500	14,280,765	14,453,260	17,831,727
(ii) Rent	50,344,500	64,139,754	37,529,317	168,297,025	47,679,000	47,677,525	25,780,445	141,686,588
(iii) License Fees	1,050,000	1,428,485	1,411,385	912,070	875,000	1,336,250	1,336,250	894,970
(iv) Other revenue	23,310,000	43,870,704	37,357,356	27,234,668	8,850,000	9,597,300	8,128,564	20,721,319
Total	89,966,000	124,310,743	90,146,287	215,299,061	71,826,500	72,891,840	49,698,519	181,134,604

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
<p>(a) Rates</p> <p>The arrears of rates as at 31st December of the year under review was Rs. 18,855,298, and within that arrears, there was a arrears balance of Rs. 6,846,167 in respect of 39 assessment units with a arrears of more than Rs. 50,000 per unit, and action had not been taken and collected in accordance with Section 170 of the Urban Councils Ordinance No. 18 of 1987 (Chapter 255).</p>	<p>Action will be taken to recover the arrears of revenue.</p>	<p>Arrears of revenue should be collected promptly.</p>
<p>(b) Rent</p> <p>The rent arrears as of the end of the year under review were Rs.166,491,203 and within those arrears, there was total arrears of Rs. 160,885,029, as Rs. 122,249,932 for the super market complex and Rs.38,635,097 for the public stall since 2019.</p>	<p>Arrears fees will be collected in the future.</p>	<p>Arrears of revenue should be collected promptly.</p>
<p>(c) Court fines and Stamp duty</p> <p>Receivable Court fines of Rs. 762,162 and stamp duty of Rs. 15,989,400 were due from the Chief Secretary of the Provincial Council and other authorities as of December 31, 2024.</p>	<p>- Do -</p>	<p>-Do -</p>
<p>(d) Other Income</p>		
<p>(i) Advertisement board fees</p> <p>In accordance with Section 39.1.2 of the Local Government Institutions (Standard By-Laws) Act, published by Gazette Notification No. 520/07 dated 23rd August 1988, action had not been taken to collect the Advertisement board fees of Rs. 894,470 from 159 institutions from the year 2020 to the year 2024.</p>	<p>Action will be taken to recover the outstanding amount.</p>	<p>Arrears of revenue should be collected promptly.</p>

(ii) **Three-wheeler parking fees**

As of 31st December, of the year under review, there was an arrears of Rs.7,901,944 from 31 three-wheeler, van and lorry parking lots, of which Rs.2,842,458 was for the period between 01 and 05 years and Rs. 3,855,705 was for the period more than 05 years.

Action will be taken to recover the arrears of revenue.

Arrears of revenue should be collected promptly.

3. Operational Review

3.1 Identified losses

Audit Observation

Although the F.R.104(3) investigation report submitted on 3 April 2023 stated that a loss of Rs.103,500 had been incurred due to a cab accident on 20 March 2023, an F.R.104(4) investigation had not been conducted to identify the responsible parties and necessary action had not been taken.

Comments of the Council

Further action will be taken after receiving the F.R. 104(4) investigation report.

Recommendation

F.R.104(4) investigations should be concluded immediately and the loss should be recovered.

3.2 Management inefficiencies

Audit Observation

- (a) Action had not been taken to settle 03 creditor balances of Rs. 915,003, which had been carried forward since the year 2020.

- (b) As per the Circular of the Commissioner of Local Government No. 2020/06 dated 28th September 2020, the surplus funds of the Council can be invested in projects that can generate revenue for the Council, such as property development or projects that provide public amenities to the majority of the people, but without doing so, Rs.17,996,995 had been invested in fixed deposits as at the end of the year under review and Rs.41,436,300 remained idle in the bank current account.

Comments of the Council

Action will be taken to settle immediately.

The surplus funds for projects will be used for development projects.

Recommendation

Creditor balances should be settled.

Surplus funds should be used for regional development as per the circular.

(c)	In accordance with Section 83.1 of Part IV of the Planning and Building Regulations as amended under Section 21 of the Urban Development Authority Act, No. 41 of 1978, published in the Extraordinary Gazette Notification No. 2235/54 dated 08 July 2021, Certificates of Conformity had not been issued for 88 building applications approved during the period from 2020 to 2022.	The certificates of conformity will be issued after inspection in the future.	Certificates of conformity should be issued.
(d)	Play Ground fees of Rs. 1,535,820 due since 2019 had not been collected.	Action will be taken to collect the relevant fees.	Arrears of revenue should be collected promptly.
(e)	Regarding the assessment tax irregularities identified in the year 2021, Financial Regulation 104(4) inspection had not been conducted, those responsible had not been identified and necessary action had not been taken.	That further action will be taken after receiving the F.R. 104(4) final report.	The loss caused to the fund should be recovered.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
The council owned 09 tractor trailers worth a total of Rs. 2,782,750, had been idle or underutilized for 10 years.	Action will be taken to dispose of in the future.	The disposing process must be implemented.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
When comparing the approved number of employees of the Council with the actual number of employees, there were 29 vacancies in 14 posts and 06 excess employees in one post.	The Department of Local Government has been informed.	Vacancies should be filled and public needs should be met efficiently.