

Waththegama Urban Council - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Waththegama 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 paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Waththegama 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
The stamp duty income of Rs. 5,572,000 relating to the previous year had been accounted for as income for the year under review.	It will be corrected in the future.	Accounts should be prepared correctly.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
Although the total fixed assets as at the end of the year under review were Rs. 147,415,609, there was a difference of Rs. 120,903 in the total of contribution from revenue to capital expenditure account being Rs. 147,294,706.	It will be corrected in the future.	Account balances should be reconciled and corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to the failure to submit documents, schedules and files, and physical existence confirmation related to 04 asset subjects totalling Rs. 3,671,760 as shown in the financial statements as of the end of the year under review, they could not be satisfactorily verified.	It will be looked into and take action in the future.	Relevant documents and schedules should be maintained to verify account balances.

1.7 Non- Compliances

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

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

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Council	Recommendation
(a)	Rating and Valuation Ordinance No. 30 of 1946			
	Section 20	Although property valuation is required to be done once every 5 years, Rates had been levied for the year under review as per the valuation report conducted in 2015.	A new assessment will be implemented in the future.	Property should be assessed time to time and rates should be levied.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 571(3)			
		32 various deposits of Rs. 113,970, which had been lapsed and were deposited during the period from 2019 to 2022, had not been settled.	It will be settled in the future.	Lapsed deposits should be settled.
(c)	Central Province, Local Government Commissioner Circular No. 2016/3 dated 17th March 2016			
	(i) Section 06	Despite receiving a new valuation from the Valuation Department on June 22, 2022, the agreements of 25 stalls had not been renewed by including the new valuation rent.	The lessees did not take steps to enter into agreements.	Agreements should be revised according to new valuation reports.
	(ii) Section 10	The lessees of 07 stalls that had been leased had sub-leased them to another party.	The lessees have been informed.	Legal action should be taken regarding sub lease

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. 25,706,039 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 15,527,690 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	2024				2023			
	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	5,771,000	5,781,359	4,593,778	3,008,553	5,771,000	2,709,148	888,175	1,820,972
(ii) Rent	7,568,800	10,811,592	10,678,223	137,336	7,685,800	185,808	181,841	3,966
(iii) License Fees	1,175,000	1,241,970	1,238,970	3,000	1,197,000	30,000	30,000	-
(iv) Other revenue	27,695,000	35,541,536	28,790,217	9,346,473	26,043,000	10,393,113	7,797,959	2,595,154
	<u>42,209,800</u>	<u>53,376,457</u>	<u>45,301,188</u>	<u>12,495,362</u>	<u>40,696,800</u>	<u>13,318,069</u>	<u>8,897,975</u>	<u>4,420,092</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 Tax		
(i)	The arrears rates balance as at the end of the year under review was Rs. 3,008,553. Out of this, 36 assessment units with arrears of rates exceeding Rs. 10,000 per unit had an outstanding balance of Rs. 737,889.	Action will be taken to recover it in the future.	Arrears of revenue should be collected promptly.
(ii)	When inspecting a sample of 21 properties that were listed as "Land" and "House" in the Rates register, it was found that although commercial buildings had been constructed and business activities were being	Action will be taken to assess and collect.	Property should be assessed and rates levied.

conducted, the council had not even taken steps to obtain a temporary valuation of the buildings and levy the rates, and the necessary action had not been taken regarding unauthorized constructions.

(b) **Other Income**

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| (i) | The arrears water charge balance as of the end of the year under review was Rs. 8,773,190, Therein, there was a total outstanding balance of Rs. 5,109,205 from 250 water charge units with a water charge arrears exceeding Rs. 10,000 per unit. | Action will be taken to collect arrears water charges and disconnect. | Arrears of water charges should be collected promptly. |
| (ii) | Water meters had not installed for 765 water consumers in 03 water projects belonging to the council and were only charged a fixed fee. | The cost of installing filter media and installing water meters is unaffordable. | Water meters should be installed and water charges should be collected. |

3. Operational Review

3.1 Improper Transactions

Audit Observation	Comments of the Council	Recommendation
There are 17 unauthorized occupants residing on the land near the “Nuwara Thanne” Play Ground belonging to the council, and without taking any formal action in this regard, a road was constructed on that land at a cost of Rs. 1,750,000 through 03 development projects during the year under review.	The land will be transferred legally.	Legal action should be taken regarding unauthorized construction.

3.2 Management inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The total of 02 accounts payable balances as at 31st December of the year under review was Rs.9,724,245. Out of which the total of the account balances relating to the period between 1 to 3 years was Rs.2,545,593 and the total of the account balances relating to the period between 3 to 5 years was Rs.104,850.	Project proposals were stoped due to the dissolution of the council.	Long-standing creditor balances should be settled.

(b)	Due to the failure to complete the Financial Regulation 104(4) investigation into the backhoe loader that involved accident in 2005 and the failure to take the necessary action, the relevant machine had been left to destroy without repair for almost 20 years.	The investigation will be implemented based on recommendations.	Investigations should be completed and appropriate action should be taken regarding the assets.
(c)	The construction of the partially completed car park behind the council office building had been halted, and the exposed steel bars used for the concrete had been corroded due to rainwater seepage for several years. As the construction of the car park had not been completed, the council's vehicles were parked in unsafe manner outdoors.	Construction of the vehicle yard will commence soon	Construction should begin immediately and assets should be protected.
(d)	Although certificates of conformity should be issued for constructed buildings in accordance with Section 83.1 of Part VI of the Planning and Building Regulations, as amended, as per Section 21 of the Urban Development Authority Act, No. 41 of 1978, read with Section 08 of that Act, published in the Extraordinary Gazette No. 2235/54 dated 08 July 2021, certificates of conformity had not been issued for 35 buildings approved during the period from 2019 to 2024.	Applicants have been informed.	Certificates of conformity must be issued for buildings used for residential purposes.
(e)	The value of 18 lands and buildings owned by the council had not been assessed and accounted for, and a survey had not been conducted regarding the lands and buildings.	It will be assessed in the future.	Land and buildings should be valued and accounted for correctly.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
05 vehicles and machinery valued at a total of Rs. 5,573,125 had been idle or underutilized for a period of between 05 and 20 years.	Action will be taken to dispose of or utilize in the future.	It should be repaired and used or disposed of.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
When comparing the approved staff and the actual staff, there were 07 vacancies in 06 posts and 06 excess in 02 posts.	The top management has been informed.	Vacancies should be filled and excess staff should be managed.

4. Accountability and Good Governance

4.1 Environmental Problems

Audit Observation	Comments of the Council	Recommendation
(a) In accordance with the provisions of Section 118 of the Urban Council Ordinance (Chapter 255), arrangements had not been made to maintain a Gully service for the disposal of sewerage of the household in the area.	There is no place to dispose of sewerage.	Problems should be solved and public needs should be met.
(b) According to the water sample test reports conducted in the year under review in 03 water projects belonging to the council had distributed water that is not up to the quality for drinking, also there were no water storage tanks to store water or treatment units, and during the rainy season, it was not possible to provide clean water due to the accumulation of muddy water in water sources.	It is Planned to use filtering methods.	Water should be purified and clean drinking water should be distributed.

4.2 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
Although the Council had identified sustainable development goals and targets in accordance with the provisions of the Sustainable Development Act No. 19 of 2017, it had not taken steps to achieve them.	Action had been taken to achieve the goals.	Sustainable development goals and targets should be identified and implemented.