

Weligama Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Weligama Urban Council including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, statement of changing Equity, Cash Flow Statement for the year and significant accounting policies and other explanatory 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 Council Ordinance (Chapter 255) and the provisions of the 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 accompanying financial statements give a true and fair view of the financial position of the Weligama Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Principles, 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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
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(a) Unreimbursed permanent employee salaries amounting to Rs.215,096 and over-reimbursed Members allowances amounting to Rs. 113,333 had not been accounted.	The Local Government Department had been informed that permanent employee salaries and employee loan interest have been reimbursed in January 2022, and that the overpaid members allowances will be offset in the year 2022.	Should be accounted correctly
(b) The Provisions had not been made under creditors for audit fees of Rs.1,000,000 on two occasions for the last year, and the actual audit fees were Rs.391,500 had not been cleared and adjusted in the financial statements.	The additional provisions have been removed by the journal entries.	Should be accounted correctly

1.6.2 Non reconciled control account or records

Audit Observation	Comment of the Council	Recommendation
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There was a difference of Rs. 5,807,315 in between the value according to the financial statements and the values shown in the schedule/utility documents related to 04 accounting items.	The action will be taken to correct.	The differences in the relevant balances should be reconciled and action should be taken to correct the accounts.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation

Due to non-submission of information such as bank reconciliation statements, detailed schedules, balance confirmations and balance lists, 10 accounting items totaling Rs.8,031,032 could not be satisfactorily examined during the audit.

Comment of the Council

Sufficient information could not be found.

Recommendation

Should be provided written evidence that can confirm the balances shown in the accounts.

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 amounted to Rs. 30,991,088 as compared with excess of revenue over recurrent expenditure amounted to Rs. 25,284,612 in the preceding year.

2.2 Performance of the revenue collection

(a) Assessments

Audit Observation

There was an arrear balance of Rs.12,098,252 from 6014 assessment units at the end of the year under review, out of which there was an arrear assessment income of Rs.278,002 from 8 properties belonging to government institutions.

Comment of the Council

It was not possible to arrange for the collection of arrears due to the Corona epidemic, and that they are currently conducting mobile services to collect the arrears of assessment tax.

Recommendation

Arrears of income should be collected promptly.

(b) Shop Rent

Audit Observation

122 lessees were in arrears of Rs.10,162,260 at the end of the year under review.

Comment of the Council

There has been an increase in the collection of income compared to the year 2020.

Recommendation

The arrears of income should be recovered promptly

(c) Rent Tax

Audit Observation

Rs.5,867,985 remained outstanding at the end of the year under review.

Comment of the Council

The legal action has been taken to recover arrears of rent.

Recommendation

The arrears of income should be recovered promptly

(d) **Rest house Rent**

Audit Observation

The arrears of Rs.1,462,974 remained as at the end of the year under review

Comment of the Council

The notices have been sent through letters to collect arrears of rest house rents, and letters have been sent to the Secretary of Public Administration and the Governor of the Southern Province to take over the Weligama Rest house to the Urban Council.

Recommendation

The arrears of income should be recovered promptly

3. **Operational Review**

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 Council Ordinance are shown below.

3.1 **Uneconomic Transaction**

Audit Observation

Although 06 security guards have been hired for the guard service of the Sabha since the year 2014, the services of two security officers from a private security company from January to March of the reviewed year on the basis of payment of Rs.980 for a 12-hour shift for the security work of the Sabha office and Kapparathota compost yard and Rs.352,800 for wages and allowances on account of acquisition and Rs.347,577 was paid for the services of four security personnel on the basis of payment of Rs.1,174.2 per 12-hour shift from another private security firm from December of the year under review to February 2022.

Comment of the Council

A security service is in operation due to the fact that there is no need to pay overtime allowances, the same service as that of 06 guards can be obtained from 04 security officers, many administrative problems are reduced, the possible theft of fertilizers and certain items is reduced, there is no need for frequent supervision, etc. that has been done.

Recommendation

The cost of getting the services should be minimized

3.2 Operational inefficiencies

Audit Observation

The evidence to confirm whether the plans had been approved for 03 buildings under construction and completed within the Municipal Area belonging to the Municipality was not submitted to the audit during the field audit inspection, and 05 building applications and proper development were rejected for various reasons. Regarding the construction of buildings without obtaining permits, proceed as per Schedule 02 of the Gazette Notice No. 2235/54 and dated 08 July 2021 included in the Planning and Development Orders/Regulations of the Urban Development Authority and It was observed during the audit that the action had not been charge a fee of Rs. 594,900 to regularize or remove the construction.

Comment of the Council

The written notice has been given to regularize the related unauthorized constructions, and reminder letters have been sent to approve the building constructions that are refused approval within 07 days.

Recommendation

Construction should be regularized or removed or expedited.

3.3 Deficiencies in contract administration

Audit Observation

In the previous year and the year under review, road development works through Council funds were offer to a Community Contracting Organizations at an estimated cost of Rs.8,400,015 and the estimates were prepared for the work of applying concrete with 1:2:4 mixture for drain systems related to 18 works. Therefore due to the use of the rate of Rs.20,589 instead of the rate of ST-047 related to the second half of the year 2019, which was Rs.17,227.95 of the Southern Provincial Road Development Authority, for the applying of 69 cubic meters of concrete related to 18 works, an over payment of Rs.3,361.05 had been done to the contractor by Rs.231,912 for cubic meter.

Comment of the Council

As new prices have been received from the Provincial Road Development Authority, only those prices will be used for works.

Recommendation

The bills should be prepared correctly