

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kesbewa Urban Council including the financial statements for the year ended 31 December 2021 Statement of assets and liabilities as at 31 December 2021, Income Comprehensive Statement, 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 Councils Ordinance (Chapter 255). My comments and observations which I consider should be report 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 Kesbewa Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

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 Sri Lanka Public Sector Accounting Standards, 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 Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
According to the Assets Management Circular No. 4/2018 and dated 31 December 2018 of the Ministry of Finance and Mass Media, although all fixed assets owned by the institution should be revaluated and accounted for at the time of submission of financial statements for the year 2020 , but the council had not revaluated assets even in the year 2021.	In the presentation of financial statements, the land, buildings and vehicles owned by the institution have been revaluated and action is being taken to revalue other fixed assets owned by the council	All fixed assets should be revaluated.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation -----	Comments of the Council -----	Recommendation -----
An excess of Rs.158,107 and shortage of Rs.352,463 had been observed, when comparing the balances of five accounts with the related subsidiary schedules with the financial statements.	Action will be taken to correct at preparation of financial statements of 2022.	Accounts balances should be corrected after reconciling the differenses.

2. **Financial review**

2.1 **Financial results**

According to the financial statements presented, the income over the recurrent expenditure of the Council for the year ended 31 December 2022 was Rs.49,134,973 the recurrent expenditure over income of the previous year Rs.222,180,148.

2.2 **Revenue Administration**

2.2.1 **Performance in Revenue collection**

The following are the observations regarding the performance of revenue collection of the council.

Audit Observation	Comments of the Council	Recommendation
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(a) Rates		

Due to action had not been taken to recover rates and taxes under Section 170 of the Urban Council Ordinance, arrears of rates and taxes was amounted to Rs.70,123,464 as at 31 December 2021. Of which a sum of Rs.5,895,415 pertaining 54 units of rates over Rs.50,000.	As at 01 January 2022, the deficit for 54 rates and tax units exceeding Rs.50,000 was Rs.7,428,663 and so far Rs.1,533,248 had been paid in respect of 10 properties.	Actions should be taken to recover the arrears of rates and taxes.
(b) Garbage tax		

For the year 2021, there were 24 institutions that had not paid any amount for waste disposal and the balance to be recover from those institutions as at 31 December 2021 was Rs.1,490,325. Accordingly, the total garbage tax value to be recover as at 31 December 2021 was Rs.3,086,851.	Information is being collected about institutions that had not paid any amount in the year 2021. This has led to the temporary suspension and close of business establishments due to the worldwide spread of the Covid pandemic.	Actions should be taken to recover the arrears of garbage tax revenue.

3. Operating Review

3.1 Management inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A proposal had been passed unanimously by the Council on 23rd February 2010 to give land deeds to 17 tenants who have been residing in Bokundara Government Houses for a long period on rent basis. But solution to the problem regarding the distribution deeds of these lands had not been found out even as at 31 December 2021.	According to the provisions of sub-section 36 “e” of the Urban Council Ordinance, the restitution to be collected from the residents required for disposal of land has been decided by the General Assembly and submitted to the Assistant Commissioner of Local Government on 29 October 2021 for the approval of the Honorable Governor. Action had been made to correct all the deficiencies in the documents referred to us by the letter dated 09 December 2021 of the Assistant Commissioner of Local Government and submit again them for re-approval.	Problems should be resolved, and deeds should be issued.
(B) Of the amount of Rs.170,000,000 due from the Local Loans and Development Fund for the construction of the head office Rs.10,000,000 had been received, but Rs.160,000,000 had not been received even by 31 December 2021.	Rs.160 million and Rs.200 million for the first and second phases of the construction of the Kesbewa main office building have been applied from the Local Loans and Development Fund and those applications have been forwarded to the Commissioner of Local Government, Secretary of the Ministry of Local Government, Chief Secretary and the Hon’ble Governor. But the loan amount had not been approved.	The receivables should be collected immediately and the construction should be expedited.
(C) The council had failed to settle the outstanding advance amount of Rs.169,203 coming from the year 2007 from a private institution.	The work of the contract had not been completed and the advance amount of Rs.169,203 had not been settled. This file, which is more than 12 years old, cannot be traced. Under the resolution 5:4 of the General Assembly dated 12 December 2019, the General	-do-

Assembly approved making adjustments considering this amount as irrecoverable amount. Although this was submitted to the recommendation of the Assistant Commissioner of Local Government, the recommendation was not received and inform you that further work is being taking in this regard.

3.2 Waste Management

----- Audit Observation -----	----- Comments of the Council -----	----- Recommendation -----
<p>In the year 2021, 7179 tons of segregated garbage and 10474 tons of mixed garbage were delivered to the Karadiana garbage yard and the amount of segregated garbage was 42 per cent of the total amount of garbage and for the year 2021. The Council had incurred Rs.2,605,700 for segregated garbage and Rs. 11,443,550 for unsegregated garbage.</p> <p>It was observed that if the unseparated amount of mixed garbage was also separated, it would have to pay only an amount of Rs. 3,766,500 and due to non-separation of the waste, an amount of Rs. 7,677,050 had to be incurred.</p>	<p>When the employees deployed for waste management were infected with the covid virus and their associates and they were prevented from collecting the waste, due to the rising situation in the country, the separate garbage collection program "Kasala Pola" was disrupted and the old vehicles owned by the council were constantly broken down, due to lack of vehicle spare parts, delays in vehicle maintenance, were the reason for the collection of garbage and the amount of mixed garbage has increased quantitatively compared to the amount of segregated garbage.</p>	<p>The garbage should be sorted properly.</p>

3.3 Idle or Underutilized Property, Plant and Equipment

----- Audit Observation -----	----- Comments of the Council -----	----- Recommendation -----
<p>Out of the 32 transmission towers recorded ten had not been assessed, and the council had not been able to recover an income of Rs.647,466 from the 29 towers which had assessed value even by the date of audit.</p>	<p>Out of the amount of Rs.768,909 to be collected by 31.12.2021 from 32 transmission towers identified and assessed within the jurisdiction of the municipality, an amount of Rs.121,443 has been collected from 03 transmission towers.</p>	<p>Action should be taken to recover arrears of income.</p>

3.4 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
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(a) A sum of Rs.13,132,057 had been paid as salaries and allowances to 46 employees who had been recruited for the projects of the Council and for other requirement during the year under review, In addition to the approved employees.	Project workers have been employed as per the service requirement of Kasbewa Urban Council.	Recruitment should be made for approved posts only.
(b) Staff loan ----- Loan balance of the 5 officers amounting Rs.275,973 coming from the period 2011 to 2016 included in the staff balance, and action had not been taken to recover any amount from that loan balance during the year under review.	Regarding the amount of Rs.182,360 to be collected from three employees who left the service and died before the balance of the employee loans were recovered and also the relevant documents could not be found when submitting applications to the Pension Department. Further it had not been possible to submit death benefit applications due to the lack of information about dependents and the absence of anyone at the address mentioned in the personal file. Two employees have left the service and they informed by letters.	Action should be taken to recover outstanding loan balances.