

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kegalle Urban Council including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2021 Statement of Financial Operations, 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) and the Provision of the National Audit Act No. 19 of 2018. 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 Kegalle Urban Council as at 31 December 2022, 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

My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 Observation on Preparation of Financial Statements

1.6.1 Accounting Deficiencies

| Audit Observation | Comments of the Council | Recommendation |
|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------|
| (a) Stocks amounting to Rs.1,273,439 and Rs.701,570 receivable as at 31 December 2022 for 08 industries had not been brought to accounts. | Action has been taken to rectify . | Accounts should be rectified |

| | | |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| (b) A construction of Rs.1,504,060 which was not entered into agreement had been shown as creditors. | Allocations has been done as it will be fulfilled in due course | Accounts should be rectified |
| (c) Over allocation of creditor provisions amounting to Rs.1,915,998 had been made for 04 industries | The reasons for creditor allocation are to call limited tenders for 02 industries, one industry is to be fulfilled in the next year, the other industry entered into the agreement but payments not done | Accounts should be rectified |

1.6.2 Un reconciled Control Accounts

| Audit Observation | Comments of the Council | Recommendation |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------|
| A difference of Rs.6,747,203 existed between the balance according to the financial statement and the same balance according to the schedules relevant to an item of accounts. | Action will be taken to rectify | Accounts should be rectified |

1.6.3 Lack of Documentary Evidence for Audit

| Audit Observation | Comments of the Council | Recommendation |
|--------------------------------------------------------------------------------------|------------------------------------------|--------------------------------------------------------|
| Schedules had not been presented for 06 items of accounts totaling of Rs.217,839,779 | Action will be taken to submit schedules | The information relevant to audit should be submitted. |

1.7 Non-compliances

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

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions are given below.

| Reference to laws, rules and regulations | Non-compliance | Comments of the Council | Recommendation |
|---------------------------------------------------------------------|-----------------------|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| ----- | ----- | ----- | ----- |
| Financial Regulations of Democratic Socialist Republic of Sri Lanka | i FR 571 | Expired 76 deposits totaling of Rs.2,462,388, had not been disposed. | The required deposits will be retained and the balance will be paid back. Action should be taken according to the financial regulations. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs.68,174,562 as at 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.81,741,931.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

The information on estimated revenue, billed revenue, collected revenue and revenue in arrears relevant to the year under review and the preceding year are given below.

| Source of Revenue | 2022 | | | | 2021 | | | |
|-------------------|--------------------|--------------------|--------------------|---------------------------------|--------------------|-------------------|-------------------|---------------------------------|
| | Estimated Revenue | Billed Revenue | Collected Revenue | Total Arrears as at 31 December | Estimated Revenue | Billed Revenue | Collected Revenue | Total Arrears as at 31 December |
| | Rs | Rs | Rs | Rs | Rs | Rs | Rs | Rs |
| Rates and Taxes | 11,700,000 | 10,776,862 | 9,603,605 | 4,577,911 | 11,700,000 | 10,208,316 | 9,048,715 | 3,455,333 |
| Rents | 54,079,502 | 55,923,825 | 55,092,178 | 4,848,707 | 54,225,300 | 50,135,058 | 39,842,603 | 4,007,694 |
| License fees | 3,195,500 | 2,362,847 | 2,597,507 | 569,800 | 3,175,500 | 2,725,316 | 2,858,548 | 533,000 |
| Other Income | <u>34,519,500</u> | <u>45,340,995</u> | <u>38,621,748</u> | <u>10,732,082</u> | <u>34,119,000</u> | <u>3,358,200</u> | <u>35,936,592</u> | <u>4,576,351</u> |
| | <u>103,494,502</u> | <u>114,404,529</u> | <u>105,915,038</u> | <u>20,728,500</u> | <u>103,219,800</u> | <u>66,426,890</u> | <u>87,686,458</u> | <u>12,572,378</u> |

2.2.2 Performance on Revenue Collection

Audit Observation

Comments of the Management

Recommendation

- (a) A sum of Rs.10,623,121 was due from the Items of Revenue of rates and stall rents as at 31 December 2022. That value included a balance of Rs.618,504 between 01 year to 05 years and another balance of Rs.5,944,136 over due for more than 05 years.
- (b) The property valuation which should be done once in 5 years according to the Local Government Circular No.1988/22 dated 17 May 1988 had not been done after the year 2000.
- Actions such as seizing of property, taking jurisdiction actions, removing rent holders has been taken.
- Even though it was informed to the Valuation Department to make arrangements to do the valuation, it had not been fulfilled.
- Rental arrears should be recovered as soon as possible.
- Action should be taken interms of the Circular.

3. Operating Review

3.1 Management Inefficiencies

| Audit Observation- | Comments of the Council | Recommendation |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| (a) Out of 1100 approved plans from 2012 to 2019, certificates of conformity had not been issued for 996 plans. As a result of that, income of Rs.3,984,000 had been lost to the Council which is charged on it. | The matters such as many constructions has been done contrary to the approved plan, constructions had interrupted , have to bear a high cost for legal actions , lack of supervising officers, caused here to. | Providing immediate supervision for the completion of constructions according to the plans. |
| (b) Even though orders had been given to discontinue the unauthorized 06 constructions, contrary to the same order, the relevant constructions were being completed and carried out. | Even though written orders had been given for removal of such constructions according to the judgment , it had not been done. | Un authorized constructions should be discontinued. |
| (c) The rest house belonging to the Sabha which has been vested by Urban Development Authority, should be re-handed over as per the Gazette Notification No.1589/20 of the year 2009, it had not been handed over even as at December 2022. As such, a sum of Rs. 1,506,700 of rest house management fee should have been recovered from that Authority relevant to the period of September 2022 to May2022. Further, as external parties had earned income from that rest house from 2009 to the year 2015 July, the suitability of the request made for writing off the fees in arrears amounting to Rs.502,,026 was problematic. | The amount of Rs.502026 to be paid has been presented for writing off according to decision of the general council. The sum amounting to Rs.1,506,700 has been informed to the relevant parties for the recovery. Unable to seize the property or unable to sue are caused to the recovery of arrears. | Action should be taken interms of the Urban Development Authority Act. |
| (d) Contrary to the instructions of the Secretary to the Ministry of Power and Energy and without approval of the same Ministry, 1184 street lamps were fixed before the year 2000. | The same approval will be taken | Approval of the Ministry should be taken to fix new street lamps. |

3.2 Operating Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|----------------------------------------------------------------------------|-----------------------------|---------------------------------------------------------|
| (a) Four officers of the Accounts Branch is being employed in Sabaragamuwa | Transfers are done by Chief | Action should be taken in terms of procedures and rules |

the same place between the period of 08 years to 13 years. The information on the service period of the employees in 12 Divisions of the Sabha ,has not been presented to the audit.

- Provincial Secretary Office of the Public Service and Provincial Council Commission. Commissioner's office.
- (b) An income amounting to Rs.243,300 had been lost due to not entered into agreement for trade stalls. Entering into agreement has not been done for this trade stall. Should be entered into agreements.
- (c) Within the creditor's balance of Rs.68,432,711 payable at the end of the year under review, a sum of Rs.21,720,502 older than 01 year to 02 years and a sum of Rs.6,900,316 older than 03 years were existed. A sum of Rs.9,491,116 out of the creditor's balance which was elapsed one year period, had been paid. Action should be taken to settle the creditor's balance.

3.3 Assets Management

| Audit Observation | Comments of the Management | Recommendation |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| (a) 27 tyres purchased within the period of 02 years to 12 years amounting to Rs.307,265 , were remained unused as it was not purchased as the requirement. | Action will be taken according to the board of survey 2022. | Assets should not keep un used manner. |
| (b) Fire extinguishing vehicle which was received in March 2022 was in unused manner up to December 2022, due to un availability of a Fire Extinguishing Unit | A building has been constructed for the Fire Extinguishing Unit and a place for supplying water at the same time is being built. | Assets should not keep un used manner.` |
| (c) A lorry, a Land Master hand tractor and 02 trailers has been remained unused from 10 years period. | Will be reported by taking proper action. | Assets should not keep un used manner. |

3.4 Human Resource management

| Audit Observation | Comments of the Management | Recommendation |
|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| 51 vacancies in the approved cadre , excess in two officers were remained and 14 persons had been recruited on service agreements. | Requests has been done for vacancies. As development officers attached without a request, excess had been arisen. | Vacancies should be filled as the requirement. |