

## **Kaduwela Municipal Council - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kaduwela Municipal Council for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies 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 provisions of the National Audit Act, No. 19 of 2018 and Section 219 of the Municipal Councils Ordinance (Chapter 252). 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 Kaduwela Municipal Council as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities.

#### **1.2 Basis for Qualified Opinion**

A qualified opinion on financial statements will be expressed based 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 for Local Government Authorities, and for such internal control as management determines 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 Municipal Council's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Municipal Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements of the Municipal Council.

#### **1.4 Scope of Audit (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:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Municipal Council's 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 Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal 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 includes special provisions for following requirements.

- (a) The financial Statements of the Municipal Council are consistent with the preceding year as per the requirement of Section 6 (i) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## **1.6 Audit observations for the preparation of financial statements**

### **1.6.1 Accounting Policies**

According to Sri Lanka Public Sector Accounting Standard – 2017 for Local Government Authorities, the following matters had not been disclosed in the financial statements.

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
According to the referred Section, fixed deposits less than 12 months valued at Rs.515 million had not been identified as current assets.	According to the format and instructions provided at the training session of the Department of Local Government, the value of fixed deposits had been accounted and action will be taken in the ensuing financial year to present assets under a classification considering the matters indicated in the Audit Query.	Assets should be accounted according to the classification standard.

## 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The estimated value of Rs.6,000,000 allocated for repairs and office furniture of the Kaduwela District Secretariat had been accounted as expenditure on repairs and maintenance.	Action will be taken to look into the nature of expenditure incurred by provision for creditors and for rectification through Journal entries.	Assets should be accounted accurately.
(b) Even though the depreciation on roads, culverts and thoroughfares of the year under review was Rs.20,243,202, it had been indicated in financial statements as Rs.28,449,065, thus overstating the annual depreciation in accounts by Rs.8,205,863.	Action was taken to rectify relevant errors through Journal No.02.	-do-
(c) The Motor Boat Account had been debited by Rs.6,112,871 and recorded as creditors in the year 2021 relating to 10 boats purchased in the year under review. Nevertheless, the sum paid therefor in the year 2022 was Rs.4,737,939, thus overstating the Motor Boat Account by Rs.1,374,932. Moreover, a sum of Rs.80,349 had been written off as depreciation considering as purchases made in the year 2021 and as such, the surplus had been understated by the same amount in accounts.	Action was taken to rectify relevant accounting errors under Journal Nos.2.2 and 2.3.	-do-

## 1.7 Non-compliances

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

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions appear below.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 395(c)	Even though a Bank Reconciliation Statement should be prepared before	Action will be taken in future to prepare Bank Statements as at the due	Bank Statements should be prepared as at the

the 15 of following month, date. due date in terms of F.R.  
 action had not been taken accordingly.

(ii) F.R. 396(d) Action had not been taken in terms of the referred Regulation relating to 10 cheques valued at Rs.1,779,646 issued but not presented for payment relevant to two bank accounts, elapsed for a period of 06 months as at 31 December 2022. Letters have been sent to brief relevant institutions relating to cheques and substitute cheques have been issued for cheques bearing numbers 465209, 465348 and 464636. Action should be taken in terms of F.R.

## 2. Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2022 amounted to Rs. 243,511,413 as compared with excess of revenue over recurrent expenditure of Rs. 622,069,391 in the preceding year.

### 2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
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The current account of a state bank remained inactive over a period of 05 years and the balance as at 31 December 2022 was Rs.600,353.	As an unidentified payment of Rs.14,250 remained unsettled up to now between the balance as at 30 July in changing the computer system of the bank in August 2006 and the balance of the current account as at 01 August 2006, the account cannot be closed until the said balance is settled.	Relevant measures should be taken relating to settlement of balances.
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### 2.3 Control of Revenue

#### 2.3.1 Revenue estimated, billed, collected and in arrears

According to the information made available by the Mayor, details on revenue estimated, billed, collected and in arrears presented relating to the year under review and the preceding year are as follows.

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.000	Rs .000	Rs .000	Rs .000	Rs .000	Rs 000	Rs .000	Rs.000
(i) Rates and Taxes	232,845	240,489	230,022	10,467	204,861	262,138	243,579	18,559
(ii) Rentals	26,714	20,355	20,611	(255)	24,325	14,515	16,118	(1,603)
(iii) Licence Fees	16,653	19,991	20,170	(179)	7,110	24,594	13,930	10,663
(iv) Other Revenue	992.930	1,084,801	1,084,801	-	292,241	1,076,142	1,076,142	-
	<u>1,269,142</u>	<u>1,365,636</u>	<u>1,355,604</u>	<u>10,033</u>	<u>528,537</u>	<u>1,377,389</u>	<u>1,349,769</u>	<u>27,619</u>

### 2.3.2 Performance of Revenue Collection

Observations on the performance of collection of revenue of the Council are as follows.

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) A sum of Rs.71,095,083 remained recoverable since many years as at 31 December of the year under review.	The sum further receivable of rates in arrears amounting to Rs.87,698,635 as at 31.12.2022 was Rs.71,095,083.	Action should be taken to recover arrears.
(b) Revenue from entertainment tax remained receivable since many years from two cinema halls in the jurisdiction of the Council was Rs.5,318,936.	A lawsuit is in progress in the Kaduwela District Court relating to these arrears.	-do-
(c) The Council had not taken action as per the agreement for the recovery of revenue from rentals in arrears amounting to Rs.5,725,434 as at the end of the year under review.	The rentals in arrears recoverable as at 31.12.2022 was Rs.5,725,434. Legal action will be taken to seal the stalls of which the arrears of monthly stall rentals have exceeded 03 months.	-do-
(d) Court fines and stamp duty receivable as at 31 December 2022 from the Chief Secretary and other authorities of the Provincial Council were Rs.28,719,924 and Rs.1,057,844,911 respectively.	That copies of court fines and stamp duty on the receivable sum has been submitted to the Revenue Department.	Action should be taken to call for court fines and stamp duty.

## 3. Operating Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Of the applications submitted from January to September 2022 to the planning committee, there were 355 applications submitted before 31 December 2020 to the Kaduwela, Battaramulla and Athurugiriya offices.	Even though the shortcomings indicated by the planning committee relating to applications submitted to the committee have been informed to the applicants, the applicants have not completed and submitted them, thus resulting in these delays.	Follow up action and subsequently, resolution of complaints should be expedited.
(b) Action had not been taken to identify and account roads, culverts and thoroughfares which belonged to the Council before the year 2020.	Even though action had not been taken to identify and account roads, culverts and thoroughfares which belonged to the Council before the year 2020, updates in this regard are in progress through the GIS software.	Identifying and accounting those assets should be expedited.

### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<p>The canteen constructed in the Council premises had been permitted on 05 December 2022 to be run by a canteen owner deviating from the tender process and without a formal agreement or charging a monthly rental. Furthermore, the water and electricity bills of the said premises had been paid by the Council as well. Accordingly, a revenue receivable during a period of 08 months have been lost to the Council and the Council had to incur an expenditure for maintaining the said premise.</p>	<p>The Administrative Committee has decided as per Decision No.2023/01/A /Decision No.178 dated 12 May 2023 that the party running the canteen on the Municipal Council premises should pay the water and electricity bills, to charge a sum of Rs.15,000 as monthly rental, to obtain these charges with effect from May 2023 and to provide the opportunity to this party for running the canteen for a period of three months.</p>	<p>Steps should be taken to recover the revenue lost to the Council.</p>

### 3.3 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<p>A cost of Rs.25,316,868 had been incurred by the Council for transport of waste of the Ran Pelessa waste dump from January to July 2022. Moreover, in terms of Guideline 1.2.1 of the Procurement Guidelines, this service had been obtained from the same institution which transported waste in the previous year, without calling for quotations. No agreement was available therefor in the year 2022 and according to the agreement of the year 2021, transport facilities had been obtained.</p>	<p>As it was extremely difficult to deploy vehicles for waste management activities due to the economic crisis arisen in the country and a severe issue could arise in case of delay in daily disposal of waste. As such, the relevant service was obtained through agreements in the year 2021 without carrying out procurement activities. Procurement activities have been carried out by now and payments have been made according to the pricing formula of fuel as providing service to the parties disposing waste due to the increase in prices of fuel and other goods, is difficult.</p>	<p>Action should be taken to reach targets in the Action Plan.</p>

### 3.4 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Five of the 14 approved posts in Staff Grade representing 36 per cent had been vacant over a period of 03 years.	The Chief Secretary is briefed through monthly and quarterly reports on the vacancies of Staff Grade posts. However, these vacancies had not been filled up to now.	Filling of vacancies should be expedited.

### 4. Accountability and Good Governance

#### Annual Action Plan

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Implementation of “Healthy People through Sports” in sports and welfare activities under common amenities services and welfare services and “Sports Promotion Programmes” had achieved a minimum of 5 per cent progress.	Even though a sports club is established in the Municipal Council, according to circulars issued relating to Covid pandemic, the sports club could not be operated due to prohibition of playing and gathering.	Action should be taken to achieve targets of the Action Plan.