

Kolonnawa Urban Council – 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kolonnawa Urban 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 Sub-section 181(1) of the Urban Council Ordinance (Chapter 255). 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 Kolonnawa Urban Council as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka 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 Urban Council's financial reporting process.

As per Sub-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 to be prepared of the Urban Council.

1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 exercise 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 Urban 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 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 includes specific provisions for following requirements.

- (a) The financial statements of the Urban Council are 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 following recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Accounting Deficiencies

	Audit observations	Comments of the Council	Recommendation
(a)	Even though the project of development of a computer software expected to be commenced in the year 2021, had been cancelled in the year under review, provision and creditors of Rs.3,500,000 debited to the Work-in-Progress Account in the year 2021 and creditors had not been eliminated from accounts.	It is accepted. Action will be taken to eliminate the said sum of Rs.3,500,000/- from the Work-in-Progress Account and Creditor's Account.	Action should be taken to account accurately.
(b)	The value of Rs.225,000 estimated for preparing a road by laying concrete expected to be carried out under direct labour, had been debited to the Work-in-Progress Account.	It is accepted. Laying concrete on a road to the estimated value of Rs.225,000.00 expected to be carried out under direct labour will be eliminated from the Work-in-Progress Account and from the Creditor's Account.	-----do-----
(c)	The profit amounting to Rs.1,305,140 computed for machines sold in the year 2021 had been credited to the Sundry Income Account of the year 2022 instead of crediting to the Accumulated Account.	It is accepted. As this was a revenue received in a preceding year, it has been accounted in the Accumulated Fund Account at present. It is ensure that such errors are not repeated again in the future.	-----do-----

- (d) A sum of Rs. 5,247,345 which It is accepted. Error will be -----do-----
 should be debited to the rectified through 2023/JE/10.
 Buildings Account for building
 development activities had been
 debited to the Fittings Account.

1.6.1 Lack of Documentary Evidence for Audit

Audit observations	Comment of the Council	Recommendation
Balances of five accounts Rs.59,950,301 could not be satisfactorily examined in audit due to failure in submission of the approval, detailed schedules and details on journal entries for transfer them to the unidentified balance account.	Action will be taken to examine balances remained many years and settle accounts.	The relevant approval and detailed schedules should be made available.

1.6.2 Non-compliances

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 104(1)	An inquiry had not been conducted on the misplace of valuable goods of the Library valued at Rs.52,000.	It is accepted. Inquiries have been commenced at present to determine the parties responsible therefor.	The loss occurred should be reimbursed by conducting relevant inquiries.
(ii) F.R. 371(5)	After issuing an advance, it should be settled within 10 days after completion of the relevant purpose. However, action had not been taken accordingly regarding a sum of Rs.1,106,500 granted in 19 instances during the year under review.	Officers have been strictly instructed to take action in terms of the revision made to F.R. 371(5) in the Public Finance Circular No.01/2020 dated 28 August 2020 in obtaining advances. As such, action	Action should be taken in terms of Financial Regulations.

will be taken to avoid such errors in future.

- (b) Section 20 of the Rating and Valuation Ordinance No. 30 of 1946 All immovable properties within the limit of the Council should be valued once in 05 years for the recovery of rates. However, the Council had assessed rates based on a valuation obtained before 07 years. Valuation of properties within the limit of the Kolonnawa Urban Council has not been carried out after the year 2012. The Valuation Department has informed in writing that valuation activities will be commenced from April 2023. As such, revising activities on valuation can be implemented since the year 2024. All immovable properties should be valued timely.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over expenditure of the Council for the year ended 31 December of the year under review was 71,698,962 as compared with the corresponding revenue over expenditure of Rs. 55,553,691 of the preceding year.

2.2 Control of Revenue

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears of Revenue

Source of revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Accumulated Arrears as at 31 Dec. 2022	Estimated Revenue	Billed Revenue	Collected Revenue	Accumulated Arrears as at 31 Dec. 2021
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	93,000,000	93,136,471	80,591,014	75,122,890	90,000,000	93,266,805	79,144,091	62,802,298
(ii) Rental	12,117,142	12,117,142	9,783,082	2,334,060	5,860,562	5,860,562	4,446,015	1,414,547
(iii) License Fees	601,000	601,000	601,000	-	686,000	686,000	686,000	-
(iv) Other Revenue	6,485,000	7,095,252	7,095,252	-	6,037,727	6,037,727	6,037,727	-
Total	<u>112,203,142</u>	<u>112,949,865</u>	<u>98,070,348</u>	<u>77,456,950</u>	<u>102,584,28</u>	<u>105,851,094</u>	<u>90,313,833</u>	<u>64,216,845</u>

2.2.2 Performance of Collection of Revenue

Audit observations	Comments of the Council	Recommendation
(i) Rates and Taxes The value of rates and taxes in arrears as at the end of the year under review amounted to Rs.75,122,890 and of that, the amount recoverable by 03 April 2023 from 93 outstanding balances of rates to the value more than Rs.40,0000, was Rs. 28,713,200.	arrears remained as at 01.01.2023, a sum of Rs.11,316,758.58 has been recovered from 26 properties to the value more than Rs. 40,000.	Action should be taken to recover the arrears of revenue.
(ii) Stamp Duty Stamp duty due from the Chief Secretary and other authorities of the Provincial Council as at 31 December of the year 2022, amounted to Rs.260,000,000.	Update of registers of Colombo and Delkanda Land Registries has not been carried out during the year under review. As such, checking of registers relating to the years 2020 and 2021 has been commenced at present.	Action should be taken to recover the due stamp duties.

3 Operating Review

3.1 Management Inefficiencies

Audit observations	Comment of the Council	Recommendation
Fruit plants had been purchased in June 2022 at the request of the Community Development Officer of the Council and kept in front of the main building of the Council for a period over 04 months and a part of the said stock had destroyed.	It is accepted. Attendance of employees was at a minimum level due to the situation prevailed in the society and as such, plants were kept on the premises of the Council. However, those plants have been planted in congested arrears and industrial areas such as Wadulla Waththa.	Relevant community development activities should be carried out effectively without delay.

3.2 Underutilization of Funds

Audit observations	Comment of the Council	Recommendation
Provision made for Capital Projects and Development Activities As um of Rs.4,363,526 of the estimated provision totalling Rs.6,300,000 made for 16	Incurring of expenditure had to be limited in terms of the	Only the capital expenditure should be limited by circulars

development activities of the current year, had not been utilized even by the end of the year under review.

Circular No.03/2022 issued by the Ministry of Finance.

and other should be carried out.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit observations	Comment of the Council	Recommendation
(i) Several buildings constructed on Meethotumulla Land provided for waste management activities of the Kolonnawa Urban Council, had been demolished and iron beams and Amano sheets which were removed, had been brought to the Council. However, those had not been utilized for any useful purpose of the Council.	The said building materials have been utilized effectively. As the area of the garage should have been increased, those building materials are scheduled to be utilized therefor. Further, those have been utilized for fixing spare parts of vehicles of the garage.	If the removals can be used, those should be reused effectively.

3.4 Human Resource Management

Audit observations	Comment of the Council	Recommendation
Action had not been taken for a period over four years to recover a balance of Rs.2,212,952 due from 36 officers.	Comments had not been made.	Action should be taken to recover the relevant arrears.

4. Accountability and Good Governance

4.1 Internal Audit

Audit observations	Comment of the Council	Recommendation
An adequate internal audit had not been carried out on constructions, works, common amenities and lands and buildings of the Council for the year 2022.	Comments had not been made.	Audit should be carried out as per the Internal Audit Plan and internal audit should be strengthened.

4.2 Sustainable Development Goals

Audit observations	Comment of the Council	Recommendation
The Urban Council had identified durations up to the year 2024 for achieving sustainable development goals. Even though relevant activities had been identified within the plan, provision had not been made from the annual budget for the year 2022 and provision of the year 2019 alone had been recorded.	It is accepted. Action will be taken to update the plan in the years 2023 and 2024 and to rectify the shortcomings.	Action should be taken to identify activities relating to the sustainable development goals and to make provision therefor from the budget.