

Kadugannawa Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kadugannawa Urban Council for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, 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 Sub-section 181 (1) of the Urban Council Ordinance (Cap.255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kadugannawa Urban Council as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 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 the Urban Council 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- Financial statements of the Urban Council are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, are included in the financial statements presented.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Council	Recommendation
(a)	A sum of Rs. 130,465 paid in the year 2023 in relation to the year under review had not been accounted for under the creditors.	Corrections will be made in the ensuing year.	Accuracy should be ensured in the accounting process.
(b)	The pension contribution that remained payable by the end of the year under review had been understated by Rs. 49,392 in the accounts.	This will be examined and accounted for in the ensuing year.	-Do-
(c)	The value of the photocopy machine amounting to Rs. 97,875, which had been auctioned on 13 March 2018, was not eliminated from the accounts during the year under review.	This will be accounted for in the ensuing year.	-Do-
(d)	The income of Rs. 215,678 and Rs.431,547 earned from the sale of degradable garbage during the preceding year and year under review, respectively, had been accounted for under the deposits.	At the time of receipt, it was accounted for as the deposits.	It should be accounted for under the revenue.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Council	Recommendation
When comparing the balance related to 02 items of account stated in the financial statements with balances shown in the relevant subsidiary documents and schedules, there was a difference of Rs. 771,252.	The subsidiary documents should be accurate.	Account balances should be rectified.

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.6,898,130 for the year ended on 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 104,220.

2.2 Revenue Administration

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

According to the information submitted by the Chairman, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue 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.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	8,000,000	7,646,784	7,753,822	6,773,112	8,000,000	7,574,636	7,649,538	6,880,150
(ii) Rents	3,475,000	3,347,446	3,505,947	1,464,511	5,220,000	2,749,815	2,230,597	1,623,012
(iii) License Fees	750,000	695,469	691,969	29,500	770,100	567,096	541,396	26,000
(iv) Other Revenue	13,600,000	9,596,770	2,192,605	7,785,764	14,700,000	1,683,876	1,561,976	381,599
	25,825,000	21,286,469	14,144,343	16,052,887	28,690,100	12,575,423	11,983,507	8,910,761

2.2.2 Performance in the Collection of Revenue

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Taxes		
The balance of rates that remained outstanding by the end of the year under review amounted to Rs. 6,773,112 and the arrears of rates due from 266 rating units with the arrears exceeding 5,000 totalled Rs. 2,162,210.	Activities relating to the seizing of properties are going on at present.	Revenue should be collected in terms of the provisions of the Act.
(b) Stall Rents		
(i) No action had been taken to recover the arrears of stall rents amounting to Rs. 1,219,860 due from 15 properties of the Council by the end of the year under review.	Arrangements are being made to recover the arrears.	The rent in arrears should be recovered.
(ii) Arrears of stall rents totalling Rs. 401,228 that had been defaulted by 12 stalls in 03 shopping complexes had not been recovered.	After eliminating the balances proposed to be written off, arrangements were made to recover the arrears.	-Do-
(c) Licence Fees		
Since the annual licences had not been issued for 34 business establishments, steps had not been taken to recover the business licence income of Rs.29,500 and the business tax of Rs.98,200.	Action will be taken to recover the arrears of licence fees.	licence fees should be recovered.
(d) Other Revenue		
Arrears of the advertisement boards amounting to Rs.337,500 had not been recovered by the end of the year under review.	The advertisement boards for which the fees were not paid were removed and a concurrence has been reached to settle the arrears.	Revenue in arrears should be recovered.

2.2.3 Court Fines and Stamp Duty

The Court fines and Stamp Duty receivable from the Chief Secretary of the Provincial Council and the other authorities as at 31 December of the year under review amounted to Rs.11,749 and Rs.7,187,000, respectively.

Action will be taken to recover the dues after examining the matter.

Court fines and stamp duty should be recovered.

3. Operating Review

3.1 Execution of duties entrusted by the Act

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

Audit Observation	Comment of the Council	Recommendation
(a) A gully vehicle service had not been maintained to clean and empty the toilet pits properly within the due period for disposing of sewage of the houses in the Council area in accordance with provisions of Section 118 of the Urban Council Ordinance (Chapter 255)	Action will be taken to obtain necessary facilities in the future.	Functions outlined in the Act should be executed.
(b) The wood furnace of the crematorium remained inactive for over a period of about 1 ½ years and without being taken action to repair the wood furnace or use it for the cremation of remains using LP gas, a sum of Rs.1,799,975 had been spent for the construction of a fence around the crematorium	Action will be taken to expeditiously repair the furnace.	Action should be taken to repair and use the furnace.

3.2 Identified Losses

Audit Observation	Comment of the Council	Recommendation
With the objective of using the dilapidated fertilizer warehouse with approximately 8000 square feet owned by the Department of Railways for tourism activities, sums totalling Rs. 1,360,801, including a deposit of Rs. 1,166,400 and monthly rentals of Rs.194,401 had been paid to the Railway Department without entering into agreements. This building had been once again handed over to the Department of Railways and the deposits paid by the Council had not been recovered.	Relevant buildings have been handed over to the Department of Railways.	Payments made should be recovered expeditiously.

3.3 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The capital debtors balance that remained receivable as at 31 December of the year under review amounted to Rs. 362,447 and the total balance related to the period from 01 to 05 years amounted to Rs. 235,234.	As an audit query is pending, it has not been reimbursed or paid.	This should be corrected and accordingly, money should be recovered.
(b) The expenditure creditors balance payable as at 31 December of the year under review amounted to Rs. 8,752,313, of which the balance related to the period from 01 to 03 years was Rs. 1,087,414 and the balance continued to exist for a period between 3 to 5 years amounted to Rs. 202,302.	Bills have not been received as yet.	Payable balances should be settled.

3.4 Assets Management

	Audit Observation	Comment of the Council	Recommendation
(a)	A vehicle belonging to the Council, which met with an accident on 12 January 2022, had been assigned for repairs to a garage on 11 February 2022. Despite the receipt of insurance coverage of Rs. 199,975, the vehicle had been further retained in the garage without attending to the repairs and taken back to the Council.	Further action will be taken by appointing an assessment committee.	The vehicle should be repaired and utilized.
(b)	Three vehicles owned by the Council had been parked in the old council premises, without attending to the repairs.	Further action will be taken by appointing an assessment committee.	The vehicles should be repaired and utilized.
(c)	No action had been taken to take over the ownership of 04 parcels of land worth Rs. 357,579,250 mentioned in the financial statements.	The relevant parties have been informed to carry out the acquisition and necessary measures are being taken to take over the ownership.	Ownership of the lands should be recovered.

3.5 Human Resource Management

	Audit Observation	Comment of the Council	Recommendation
(a)	Cadre vacancies and excesses When comparing the approved cadre and the actual cadre, there were 20 vacancies in 11 positions, while there were 17 excess cadre relating to 02 positions.	Vacancies cannot be dealt with according to the circular provisions and the excess cadre represents the Development Officers.	Vacancies should be filled.
(b)	Employees Loan A loan balance of Rs. 423,253 due from 05 employees who were retired, transferred, and those who vacated the service during the period 2019 and 2020 had not been recovered.	Action will be taken to recover the balances.	Loan balances should be recovered.

(c)	Although a human resource management plan should be prepared at least once in two years and annual performance agreements should be signed in order to capacity development of the public servants as per the Public Administration Circular No.2/2018 dated 24 January 2018, action had not been taken accordingly.	These activities are being carried out at present.	Circular instructions should be complied with.
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4. Accountability and Good governance

4.1 Budgetary Control

Audit Observation	Comment of the Council	Recommendation
When comparing the estimated income and expenditure of the budget prepared for the year under review with the actuals, variations ranging from 29 per cent to 87 per cent were observed relating to 03 items of income, while variations ranging from 23 per cent to 99 per cent were observed in relation to 11 items of expenditure. Accordingly, the budget had not been made use of as an effective instrument in control.	This situation was due to the reasons such as making a lesser number of payments, not conducting the expected programmes, and the economic crisis situation.	The budget should be prepared with due regard in keeping with the necessities.

4.2 Sustainable Development Goals

Audit Observation	Comment of the Council	Recommendation
Although the Council had identified sustainable development goals and targets, indicators had not been identified to achieve them and evaluate the progress.	Action will be taken in this regard in the future.	Goals and targets should be achieved by identifying sustainable development indicators.