

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kattankudy Urban Council including the financial statements for the year ended 31 December 2023 comprising the balance sheet as at 31 December 2023, Income and Expenditure Account, Cash Flow Statement for the year, 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 Section 181 (1) of Urban Council Ordinance (Chapter 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 paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kattankudy Urban Council as at 31 December 2023, 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 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- 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.
- The financial statements presented includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
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(a) 12 Cantanier Shop worth Rs. 13,451,780 completed during the year under review had not been capitalized.	Actions have been taken to capitalized the total value of the Cantanier Shops.	Action had be taken to Show the Assets in capitalize.
(b) Receivable capital grant under Local Development Supporting Programme amounting to Rs.199,422 was not shown in the financial statements.	Actions have been taken to include the capital grant under the Local Development Supporting Programme the amount of Rs. 199,422, in the financial statement.	Action had be taken to Show the capital grant as Receivable in the financial statements.
(c) End of the year under review, 04 cases filed by the council against to the outsiders and by outsiders against to the council, had not been disclosed in the financial statements.	Action have been taken to disclose the details of the cases as notes in the financial statements.	Actions should be taken to specifically show cases in financial statements.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
As at 31 December of the year under review, 07 account balances worth Rs. 261,222,755 could not be satisfactorily monitored during the audit due to non-submission of land deeds, fixed asset registers, schedules and balance confirmations.	That actions are being made to obtain land deeds and documents related to machinery, motor vehicles, and wooden fittings.	Documents of the assets should be obtained and documented.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(i) Section 371(2) (a)	Advance payments amounted to Rs. 10,106,886 made by the Council to the staffs, contractors and government institutions, which had not been settled up over from 02 month to 16 years.	Actions will be taken to adjust the advance amount.	Action should be taken to recover the advance payments.
(ii) Section 571 (1) ,(2) & (3)	Council had not been taken to transfer the lapsed deposits of Rs. 1,110,219 to the income over 02 years.	Action have been taken to transfer the lapsed deposits to the income.	Action should be taken to adjust the lapsed deposits.
(b) According the No. 48 of 1971 Special	Immovable properties had to be assessed once in 05 years	We are working with the Valuation Department in	Action should be taken to assess the

Provision of Local Government and Chief Secretary of Eastern Province letter no.EP/01/CMA/Cabinet .Memo/07 dated 2020 July 10.

for the purpose of this regard. Even though, assessments tax had carried out for the 25,484 properties, which were assessed in 2014.

immovable properties once in 05 years.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs. 13,148,387 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 9,567,389 in the preceding year.

2.2 Revenue Administration

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

The details relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Rates and Taxes	22,030,000	35,781,669	19,355,556	16,426,113	21,612,000	22,371,641	20,367,473	11,594,381
Rent	10,089,000	10,461,725	10,081,350	380,375	12,420,000	7,495,627	7,287,527	208,100
Income								
License Fees	3,920,000	4,366,495	4,337,935	28,560	4,060,000	4,088,230	4,073,780	38,000
Other revenue	96,553	41,092,693	40,584,868	507,825	124,804,000	100,644,294	100,582,287	5,614,576
Total	36,135,553	91,702,582	74,359,709	17,342,873	162,896,000	134,599,792	132,311,067	17,455,057

2.2.2 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) As at the end of the year under review, the outstanding rate tax was Rs. 5,042,645 and out of which Rs. 4,657,935 was found to be outstanding from 25,484 properties during from 02 years to 05 years.	Action will be taken to collect the arrears in the future year.	Actions should be taken to collect the rate tax arrears.
(b) The stamp duty due on December 31, 2023 from the Chief Secretary of the Provincial Council and other officers is Rs.14,805,656.	Actions have been made to collect the relevant stamp duty.	Actions should be take to obtain the stamp duty.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) According to the Sec.3 (1) of Employee Provident Fund Act No. 15 of 1958 (Chapter623) and Sec. 16(1) of the Employees' Trust Fund Act No. 46 of 1980, the contributions for a particular month shall be paid to the particular funds before the end of the following month. In case of failure to do so, although it has been mentioned that contribution amounts should be paid along with late penalty money, the council had not taken action to pay the contribution amount of Rs. 9,388,517 for the period from January 2021 to November of the year under review.	That steps have now been taken to pay the contributions to the Employees' Provident Fund.	Steps should be taken to pay the contributions to the Employees' Provident Fund and the Employees' Provident Fund at regular intervals.

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| (b) | A lawyer has been appointed since 2018 to deal with the council's legal matters and get advice related to it and appear on behalf of the council in the courts and has been paying allowance of Rs. 20,000 every month by the council. Even though, another lawyer had been presented in courts for the 02 cases had sued by the council and payment of Rs. 215,000 also had been paid by the council. | A special lawyer had to be selected so that a favorable solution could be reached for the council while dealing with lawyers who are specialized in the subject matter of the case. | Action should be taken to incur the expenses with proper approval. |
| (c) | The values of 53 vehicles and 17 trailers with a value of Rs 33,206,837 shown in the financial statement over 05 years, have not been revalued and accounted till end of the year under review. | Action have been taken to consider this issue in the financial statement in the current year. | Actions must be taken to show the revalued amount of vehicles and trailers in the financial statements. |

3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) Action had not been taken for the last 5 years to repair and re-use or auction the 11 vehicles and 06 tractors, which are found in broken condition in the council.	Action will be taken in the future.	Action should be taken to repair or dispose the vehicles.
(b) Action had not been taken to transfer the ownership of 05 vehicles in the name of other Ministries and Departments and to calculate their values.	Data has been send to Comptroller Department to transfer the title of the vehicles to the name of the council.	Action should be taken to transfer ownership of vehicles to the name of the council.

3.3 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
(a) due to the action had not been taken to fill the 46 vacancies, the services provided to the public remained in poor condition.	Vacancies details has been noticed.	Actions should be taken to fill up the employee vacancies.
(b) Distress loan and other loan amounting to Rs. 46,792 due from the 03 retired and transferred staffs, had not been recovered over 05 years.	Action has been taken to rectify the loan arrears.	Necessary actions should be taken to recover the staff loan arrears.