

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Katunayaka Seeduwa Urban Council for the year ended 31 December 2023 comprising the statement of assets and liabilities as at 31 December 2023 and the statement of comprehensive income, statement of changes in net assets/ equity, cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information 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 Katunayaka Seeduwa Urban Council as at 31 December 2023, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

**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 Sri Lanka Public Sector Accounting Standard for Local Authorities, 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 financial reporting process of the Urban Council.

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 Audit Scope (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 skepticism throughout the audit. I also:

- Designed and performed the appropriate audit procedures, identified and assessed 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.
- Obtained 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 the internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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;
- Whether the resources have been procured and utilized economically, efficiently and effectively within the timeframes 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.

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

## 1.6 Audit Observation on the preparation of Financial Statements

### 1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

	<b>Non-compliance with reference to the relevant standard</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	Although the employees' loans provided amounting to Rs.14,724,711 and the loan amounts paid back amounting to Rs.12,261,613 should be shown separately in the calculation of cash flow from investment activities as per EG 6.3 of the explanations and guidelines in Chapter No. 3.29 of the Standard and its Appendix 2, only the net amount of those values had been stated and the purchase of property, plants and equipment had been understated by Rs.32,991.	We will make sure not to do that mistake.	The cash flow statement should be prepared in line with the standard.

### 1.6.2 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	The income from the charges for waste disposal amounting to Rs. 2,548,000 receivable as at the end of the year under review had been indicated in the account of the receivable capital grants.	The actions will be taken to indicate after transferring to a separate account in the future.	The accountings should be done accurately.
(b)	Although the depreciation amounting to Rs. 10,996 related to the disposal of library books worth Rs.31,972 in the year under review should be removed from the provisions for depreciation account, a sum of Rs. 13,040 had not been removed.	The actions will be taken to rectify this error next year.	- Do -
(c)	As the capital grants of Rs.50,394 receivable as at the end of the year under review had not been accounted, the capital grant balance receivable had been overstated by the said amount.	The rectification will be done in the forthcoming accounting year.	- Do -

### 1.6.3 Non-reconciled Administrative Accounts or Reports.

Audit Observation	Comment of the Council	Recommendation
There was an untallied disparity of Rs. 775,752 between the total of the schedules presented with the financial statements of the year under review and the balances of 03 accounts of the financial statements.	The proceedings will be done to settle within the next year.	The reasons for non-reconciliations should be found and the actions should be taken to rectify.

### 1.6.4 Absence of written evidences for audit

Item	Amount Rs.	Audit evidence not Provided	Comment of the Council	Recommendation
Water Bills	3,888,743	The reason for the adjustment to the accumulated fund.	The actions will be taken to obtain and account the creditor balance for water correctly from the next year.	The reason for the disparity should be disclosed.

## 1.7 Non-compliance

### 1.7.1 Non-compliance with Laws, Rules and Regulations

	Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Council	Recommendation
(a)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka 571(2)	Although the inquiries should be made before crediting the deposits to the state revenue, a sum of Rs. 6,309,706 had been credited to the income of the year under review without making any such enquiry.	The proceedings will be done as per the financial regulations.	The proceedings should be done as per the Financial Regulations.
(b)	4.2.1 of the Government Procurement Guidelines 2006	The procurement plan had not been prepared incorporating the constructions/ works related to new 70 projects that had been started within the year under review.	The actions will be taken to do the rectification in future.	The proceedings should be done in line with the government procurement guidelines.
(c)	Circular No.LGD/13/2016(1) dated 03 December 2020 of the Local Government Commissioner of Western Province	Although the monthly rental should be amended based on the assessment of the government assessor once in 03 years from the date of lease agreement, it was not revealed to the audit that an assessment regarding the leasing of shop rooms near the bridge of Kotugoda road has been amended within the preceding 03 years.	The said issue will be settled in future and the assessment will be carried out.	The proceedings should be done according to the Circulars.

## 1.7.2 Non-compliance to Tax Requirements

Audit Observation	Comment of the Council	Recommendation
The payable tax amounting to Rs. 218,245 lasting from the year 2019 had not been settled by the Council.	The actions will be taken to settle the ledger balance in future.	The actions should be taken to settle the taxes.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements submitted, the income exceeding the expenditure of the Council for the year ended 31 December 2023 was Rs. 147,401,280 and the corresponding income exceeding the expenditure of the previous year was Rs. 177,782,346.

### 2.2 Revenue Administration

#### 2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the Secretary, 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.

Income Source	Estimated income	2023		Total deficit as at 31 December	2022		Total deficit as at 31 December
		Billed income	Collected income		Estimated income	Billed income	
	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'
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Rates and Taxes	152,900	151,740	150,753	55,909	153,675	156,364	56,245
Rentals	16,538	11,587	14,008	931	8,550	11,939	882
License fee	6,151	4,899	4,899	-	5,321	4,965	-
Other income	146,901	205,849	196,041	32,460	118,025	133,233	18,763
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	322,490	374,075	365,701	89,300	285,571	306,501	75,890
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## 2.2.2 Performance in Collecting Revenue

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
A sum of Rs. 557,000 from 487 Units as Business Tax and Industry Tax had not been collected.	The recovery has got delayed due to the vacancy of officers.	The overdue income should be collected.

## 3. Operation Review

### 3.1 Fulfilling the tasks assigned by the Act

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Although a Gazette Notice had been issued by the Council for the collection of hall booking charges for festivals / meetings related to the year 2023, applying a by-law or preparing a by-law and getting approval thereto enabling the collection of those charges had not been done.	The proceedings will be done accordingly in future.	The actions should be taken to apply a by-law or prepare new a by-law.
(b) There were 05 public complaints unresolved from the public complaints that had been received in the year 2023.	The actions will be taken to conclude the complaints as soon as possible.	The public complaints should be resolved as soon as possible.

### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) 04 instances where the Council had not collected charges and issued licenses for the billboards that had been set up in the premises of market places so as to be seen to the streets of the council's area in contrast to Section 3 of the by-law on advertisements were revealed in the search inspection, and 23 billboards were identified for which the charges were not collected within a distance about 150 meters in Seeduwa junction and accordingly the Council had lost an income of Rs.333,950.	The surveys are being carried out to collect charges from the trade-related advertisements at the trading places.	The proceedings should be done as per the By-law.
(b) In accounting the value of the public facility land with an extent of 88.8 perches that the Council had owned at a selling of land lots in the year 2023, the received deed value of Rs. 100,000 had been accounted as the value of the land without considering even the minimum selling price of one perch; Rs. 1,250,000. Accordingly, by considering the minimum selling price of one perch which was Rs.1,250,000, the value of the public facility land of 88.8 perches should be Rs.111,000,000. Consequently, the value of the land that the Council owned had been underestimated by Rs. 110,900,000.	The assets will be re-valued next year and a reasonable value related to the land will be shown in the final financial statements.	The accurate values should be assessed and accounted.

(c)	A sum of Rs. 1,677,409 which was surcharged and receivable by the Council since a long time had not been recovered.	The said amount will be settled in future.	The actions should be taken to settle.
(d)	A survey had not been conducted by the Council for the year 2023 to identify the institutions that should be provided with environmental licences according to Gazette Notice No. 2264/18 dated 27 January 2022.	The steps have been taken to obtain it using the data of the survey on trade licences conducted in relation to the year 2023.	The institutions that should be provided with environmental licences should be separately identified and recorded by using the surveys conducted.
(e)	As 310 institutions; from which a total value of Rs. 328,000 was to be recovered, were allowed to operate without trade licenses, no regulation of business was done. Consequently, neglecting the responsibility towards the public was a violation of the Urban Council Ordinance.	The legal actions will be taken against the institutions that do not obtain trade licences in all divisions from next year.	Proper regulations on the businesses should be done.
(f)	Considering the revaluation amount of Rs.20,996,166; that had been given by the Council after being assessed through a valuation board in the year under review without obtaining a valuation from the Valuation Department related to the buildings existed in the Council, as the building value in the account was a management inefficiency.	The answers have not been given.	A valuation should be taken from the Valuation Department.

### 3.3 Operation Inefficiencies

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	The values certified by a government or private chartered assessor had not been taken as a basis for leasing 07 immovable properties in line with the Rule 406 on the Accounting Activities related to the Financial Administration of the Urban Council and the proceedings had also not been done as per the Urban Council Financial Rules 314(1), 335, 341.	As the Lessee has been selected for the year 2024, the said valuation is to be used for the procurement 2025.	The proceedings should be done as per the Financial Rules of the Urban Council.
(b)	As any supervision had not been done by the Council regarding the non-opening of the leased shops in the Katunayaka new shopping complex, the shopping complex was devoid of people and a large extent of land on the ground floor of that building which could have been utilized for a productive purpose remained unused for any purpose.	The actions will be taken to get an income to the Council after the development works.	The assets owned by the Council should be used productively.

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| (c) | Although the shop room should never be transferred, mortgaged, sub-leased or rented to others without written permission of the lessor according to the condition No. 17 of the agreement related to the shops in Seeduwa New Market Complex, the agreement had been made for 07 shop rooms that were later identified to have been sub-leased without a written permission from the lessor. However, there was no evidence that even a transfer fee was obtained as per the Circular No. LGD/13/2016 (1) dated 03 December 2020. | The proceedings will be done for the lessees as per the agreement and the circular. | The proceedings should be done as per the circular.  |
| (d) | The formal actions had not been taken by the Council regarding 09 shops in Seeduwa New Market Complex which are being maintained by the parties except the lessee.  | The proceedings regarding the lessees will be done in future as per the agreement.  | The proceedings should be done as per the agreement. |

### 3.4 Procurement Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) 14 instances of procurements amounting to a total of Rs. 2,980,879 had been done contrary to 3.4.3 (c) of the Government Procurement Guidelines 2006, 12 instances out of which related to Rs. 2,336,636 had been done contrary to the 6.3.6 of the procedural code of the said guideline and one instance amounting to Rs. 41,391 had been done contrary to the 5.6 of the Guideline.	The quotations have been called only from the registered buyers related to 04 instances. However, the quotations from the registered suppliers have not been called at 09 instances due to certain reasons.	The proceedings should be done as per the procurement guideline.
(b) A photocopier had been purchased for Rs.392,000 contrary to the 2.3.2 (c), 2.6.1(a)(ii) and 7.11.1 of the Government Procurement Guidelines 2006.	We accept that non-appointment of the Technical Committee formally as per the 2.3.2 (c) of the Procurement Guidelines is a weakness.	The proceedings should be done as per the Procurement Guidelines.
(c) A sum of Rs.4,985,000 had been paid to a private company in the year 2022 to install 07 software to make payments through the internet. The following particulars were observed in this regard.		
1 05 software systems worth Rs. 3,565,000 had not been made operational even by the date of audit; 24 November 2023.	The actions will be taken to activate all these items very soon.	The software systems should be taken to the operational status.
11 The full amount had been paid by the Council contrary to the sections of the agreement and the training to the officers of the Urban Council had not been provided.	The payments have been made after giving recommendations by the Head of the Revenue Division that the respective trainings were obtained properly as per the page no.120 of the file.	A proper training should be obtained from the relevant institution.



### 3.5 Deficiencies in the Contract Administration

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The proceedings had been done in contrast to the 2.11.1(d), 4.2.2, 6.2.1(a), 6.2.2 of the Government Procurement Guidelines 2006 during the construction of toilet system. Further, even if Rs. 192,546 had been estimated for the aluminium partition of 140.75 square feet under 45 items of the estimate prepared related to the project, it was physically observed that a corridor had been reserved using aluminium partition of 164.44 square feet to access that toilet system. Accordingly, a task that was included in the estimate had been given by the Council to a contractor that was included in the estimate outside of the budget.	We agree to do those activities through a formal system in the future. This was done in good faith with the expectation of minimizing disruption to office work on a long holiday.	The proceedings should be done according to the Government Procurement Guidelines. The proceedings should be done according to the Government Procurement Guidelines.

### 3.6 Idle Assets

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) 07 vehicles; that were not in running condition from the year 2019 to 2023 remained further decaying, as those were not repaired and used for running.	It is expected to repair the tractors suitable to be repaired, and to dispose the tractors not suitable for running.	The repairs should be done properly and the assets should be used with maximum efficiency.
(b) Although a total of Rs.691,529 had been spent in the years 2021 and 2022 for the repair of the car which was in the disposal status and received by the Council on 20 March 2021 from the Solid Waste Management Authority of the Western Province, only 4,595 kilometers had been run for 68 days from that date and the car had not been run throughout the year 2023 while the clutch system had also been repaired spending a sum of Rs.45,550 in the year 2023.	The actions will be taken to minimize this situation in the future and to use the vehicles for running with maximum efficiency.	The assets should be used with maximum efficiency carrying out a proper supervision about the vehicle administration.

### 3.7 Human Resource Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
According to the staff details of the Council as at 31 December 2023, it was observed that there are 7 vacancies in 3 secondary level posts, 1 excess related to a post and 22 vacancies in 3 primary level posts.	The said vacancies remain the same as recruitments for vacancies have been stopped by the government itself.	The proceedings should be done to manage the staff in a way that does not affect the efficiency of the activities of the council.