

Kinniya Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kinniya 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 Kinniya 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.

- (a) 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.
- (b) 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

	<u>Audit Observations</u>	<u>Comments of the Council</u>	<u>Recommendations</u>
(a)	The stamp duty due from the Provincial Inland Revenue Department was Rs 3,846,400 and had been shown as Rs 32,173,680 in the financial statements.	It is accepted. Action will be taken to correct it in future.	The Action should be taken to state the correct amount.
(b)	The value of Rs. 7,742,969 of council office and public library buildings in the year under review had not been brought forward under land and building account in the financial statements.	It is accepted. Now, Action has been taken to correct it.	-do-
(c)	The payable amount of Rs. 3,629,064 for a construction work completed during the year under review had not been shown in financial statements.	It is accepted. Action will be taken to correct it in future.	-do-
(d)	Received leasing amount of Rs.3,181,924 had not been reduced from arrears amount.	It is accepted. Now, Action has been taken to correct it.	The Action should be taken to state the correct amount in financial statements.
(e)	In 2022 and 2023, the Donation of 08 types of furniture fittings and books totaling Rs 627,214 had not been accounted.	The Action will be taken to be accounted.	The Action will be taken to be entred into the correct accounts..

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| (f) | An amount of Rs.70291 the additional collection of Assessment tax had not been shown as a liability in the financial statements during the year under review. | In future, the Fault will be corrected. | Action should be taken to show the correct amount in the financial statements. |
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1.6.2 Documentary evidenced not made available for Audit

Audit Observations	Comments of the Council	Recommendations
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The Evidences subjected to the 05 Accounts in a cumulative amount Rs. 153,662,447 had not been submitted for audit.	The action will be taken to send the said documents to you.	The proper action should be taken to obtain the documents.

1.7 Non- Compliances

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

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions etc. are shown below.

Reference to Laws, Rules

Regulations etc.	Non-compliance	Comments of the Council	Recommendation
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Section 571(1)(2) (3) of Financial Regulation of the Democratic Socialist Republic of Sri Lanka	The council had not been taken action in related to 83 lapsed deposits over two year.	The action has been taken now.	The Action should be accelerated in term of financial regulation.

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. 6,620,366 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 11,674,683 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.)
(i) Rates and Taxes	7,761,000	12,606,000	2,992,000	9,614,000	4,911,000	10,205,000	2,510,000	7,695,000
(ii) Rent Income	20,000,000	69,604,000	4,593,000	65,011,000	20,345,000	48,974,000	3,063,000	45,911,000
(iii) License Fees	5,245,000	3,079,000	3,079,000	--	1,675,000	1,675,000	1,675,000	--
(iv) Other revenue	7,113,000	16,760,000	2,331,000	14,429,000	4,200,000	10,676,000	1,029,000	9,647,000
Total	40,119,000	102,049,000	12,995,000	89,054,000	31,131,000	71,530,000	8,277,000	63,253,000

2.2.2 Revenue Collection Performance

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

	Audit Observations	Comments of the Council	Recommendations
(a)	Rate and Tax A sum of Rs. 9,614,000 balance of arrears of rate tax account had been in the ended date of the year under review.	No reply	The Action should be taken to recover the arrears amount.
(b)	Rent The council had not been taken action to recover the totaling Rs.27,267,000 receivable lease rent in ended date of year under review.	In future, action will be taken to adjust it.	-Do-

3. Operational Review

3.1 Management Inefficiency

	Audit Observations	Comments of the Council	Recommendations
(a)	the Payment amounted Rs.32,497 had been made as penalty due to failure of the employee's trust fund payments made on time in term of employee trust fund act no 46 of 1980.	In future, action will be taken to adjust it.	The action should be taken to pay as per the employee trust fund act no 46 of 1980.
(b)	In the year under review, a deduction of 40 per cent from the leasing income amounting to Rs 244,400 was deducted by the council without the recommendation of The Commissioner Local Government and the permission of the Governor.	The said fault will be avoided in future.	the action should be taken as per the particular circular
(c)	A loss of Rs 48,520 had been incurred to the council due to late renewal of annual vehicle licenses.	It will be avoided in future.	The vehicle licenses should be taken without delay.

3.2 Performance inefficiency

	Audit Observations	Comments of the Council	Recommendations
(a)	The certificate of conformity for 89 development permits issued for construction of buildings from 2022 to year under review had not been issued by Council	It will be corrected in future	The process of issuing certificates should be expedited.
(b)	The action had not been taken by the council to collect the charges for sand vehicles transporting by road within the council's urban jurisdiction.	Action will be taken to collect in future.	Action should be expedited to collect the Charges for road usage of vehicle.

3.3 Asset Management

3.3.1 Idle Asset

	Audit Observations	Comments of the Council	Recommendations
(a)	Under the Local Government Development Support Project, action had not been taken by the council to use the constructed cold room for that specific purpose to generate income.	Action will be taken soon.	Action should be accelerated to earn income using specific purpose.
(b)	The action had not been taken by the council to utilize the compost crusher machine in the process of compost production.	Action has been taken to sale it due to repairing condition now.	Action should be taken to earn the income.

3.4 Human resource management

	Audit Observations	Comments of the Council	Recommendations
	The posts of Secretary and Accountant, which had been lying vacant for a long time, were not filled with permanent officers.	Vacancies indicated by you are expected to be filled up by the appointing authority.	Proper action should be made

4. Accountability and Good Governance

4.1 Environmental Issue

	Audit Observations	Comments of the Council	Recommendations
	Certificate of permit for Environment Protection had not been issued for 08 institutions in term of the National Environment Act No 47 of 1980 amended by acts No 53 of 2000 and No56 of 1988.	Now, Action has been taken	The Action should be taken accelerate in term of circular.