

Kadugannawa Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kadugannawa Urban Council for the year ended 31 December 2023 comprising with the Balance Sheet as at 31 December 2023 and Income and Expenditure Account, 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 Councils Ordinance (Chapter 255) and National Audit Act No. 19 of 2018. My comments and observations which I consider should be report 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 Kadugannawa Urban Council as at 31 December 2023, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices

1.2 Basis for Qualified opinion

I expressed qualified opinion 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 Councils 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 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

National Audit Act, No. 19 of 2018 includes specific provisions for 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 the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Policies

Audit Observation	Comments of the Council	Recommendation
In respect of 30 lawsuits which have not been finalized as on the balance sheet date, there was no disclosure in the financial statements.	It will be disclosed next year.	It should be disclosed in the accounts.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Fixed deposits of Rs.108,869 were not accounted for.	It will be corrected in the coming year.	It should be accurately accounted for.
(b) Income of Rs.111,103 received from the sale of solid waste related to the year under review was not accounted for.	It will be taken into income and corrected.	-Do-
(c) Total amount of Rs.205,946 was paid for construction on 02 occasions during the year under review was erroneously shown under creditors.	It will be accounted for in the coming year.	-Do-
(d) While the project of developing a tourist town was not implemented, Rs. 2,160,000 was erroneously stated as payable to the Railway Department under the creditors.	Action will be taken to write off	It should be correctly accounted for.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
The physical existence of 03 account balances totalling Rs.1,373,616 shown in the financial statements could not be satisfactorily verified during the audit due to non-submission of documents, schedules and files.	It will be checked and corrected	Documents should be physically checked and documented files updated.

1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Urban Development Authority Act No. 41 of 1978 as amended by Gazette No. 2235/64 and Extraordinary Gazette dated 08 July 2021			
(i)	Paragraph 28(1).	49 constructions continued without obtaining a development permit issued by the council.	Action will be taken to legitimize.	The provisions of the Act should be followed.
(ii)	Paragraph 84	In order to complete and occupy as per the approved development permit and development plan, a Conformity certificate should be provided, but 228 building applications approved during the period from 2019 to the year under review were not dealt with accordingly.	A suitable program will be prepared.	The provisions of the Act should be followed.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial regulation 571 (3)	33 cases of miscellaneous deposits related to the period 2013 to 2020 and 21 cases of retention related to the period 2014 and 2022 of Rs. 824,350 have not been settled.	It will be checked and settled.	It should be complied with financial regulations.
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2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2023 amounted to Rs. 6,308,331 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 6,898,130 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the Secretary 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	8,000,000	7,683,959	7,138,241	7,318,830	8,000,000	7,646,784	7,753,822	6,773,112
(ii) Rent	5,670,000	5,577,101	5,348,347	1,693,266	3,475,000	3,347,446	3,505,947	1,464,511
(iii) License Fees	700,000	638,753	638,753	-	750,000	695,469	691,969	29,500
(iv) Other revenue	13,140,000	10,462,941	10,389,305	7,859,400	13,600,000	9,596,770	2,192,605	7,785,764
	<u>27,510,000</u>	<u>24,362,754</u>	<u>23,514,646</u>	<u>16,871,496</u>	<u>25,825,000</u>	<u>21,286,469</u>	<u>14,144,343</u>	<u>16,052,887</u>

2.2.2. Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

	Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes	<p>At the end of the year under review, the outstanding assessment tax balance was Rs.7,318,830, and a total of Rs.3,161,838 was not collected from 306 assessment units where the assessment tax arrears exceeded Rs.5,000 per unit.</p>	<p>The seize of property are already being carried on.</p>	<p>Revenue should be collected according to the provisions of the Act.</p>
(b) Stall Rent	<p>In the arrears rent balance of Rs. 1,619,933 as on December 31 of the reviewed year, the arrear rent of one stall was Rs. 754,650, and the outstanding balance of 15 stalls of Rs. 10,000 and 100,000 was Rs. 453,758 were uncollected.</p>	<p>The concerned parties have been informed to recover..</p>	<p>Arrears of rent should be recovered.</p>
(c) Other Income	<p>The Urban Council has not enacted by-laws regarding Three wheeler charges, and no actions have been taken to identify Three wheeler parking spots. Although there were more than 20 three-wheeler stands within the Urban council area of authority, the council's revenue sources were blocked due to non-collection of fees.</p>	<p>A program will be prepared and charged.</p>	<p>Arrangements should be made to impose by-laws and collect fees.</p>
(d) Court Fine and Stamp Fees	<p>Court fines amounting to Rs.22,249 and stamp duty amounting to Rs.7,187,000 were due from the Chief Secretary of the Provincial Council and other authorities on December 31 of the year under review.</p>	<p>It will be checked and collected.</p>	<p>Court fines and stamp duty should be collected.</p>

3. Operational Review

3.1 Fulfillment of functions assigned by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

Audit Observation	Comments of the Council	Recommendation
(a) The wood-fired crematorium owned by the council had been inoperative since November 25, 2020, but had not been repaired by the end of the year under review. As a result, the public had faced severe difficulties and the sources of income generation of the council had also been blocked.	Action will be taken to implement a Project.	Crematoriums should be repaired and used for public service.
(b) As per the provisions of Section 118 of the Urban Council Ordinance (Chapter 255), for the disposal of sewerage of the houses in the area, there was no gully service being maintained to enable regular cleaning and emptying of pits within due time.	The necessary facilities will be provided in the future.	The functions of the Act should be fulfilled.

3.2 Identified Losses

Audit Observation	Comments of the Council	Recommendation
According to board of survey reports, there was a shortage of 553 library books.	Action will be taken to identify the correct balance.	The parties related to the deficiency should be identified and recovered.

3.3 Informal Transaction

Audit Observation	Comments of the Council	Recommendation
(a) According to 158 (e) of the Urban Council Ordinance, all money received from sales, leases or other transactions of the council should be paid to the council fund, but an income of Rs.1,163,267 from the sale of solid waste during the period from 2016 to last year was paid to health workers without being credited to the income.	There is council approval.	The provisions of the Act should be followed.

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| (b) | An amount of Rs.1,360,400 was paid to the Railway Department on March 03, 2021 for the project of developing a tourist town, and due to the fact that the two parties have not entered into an agreement regarding the lease of the relevant property, the building was not received by the council, hence the amount of Rs.1,360,400 paid for that was not recovered. | It will be act with this regard in the future. | Action should be taken to get return. |
| (c) | 48 perches were given to an outside party to build 08 houses on a land belonging to the council. | It is a property owned by the Urban council. | Assets should be disposed of with formal approval. |

3.4 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) As on 31st December of the year under review, the development projects balance was Rs. 4,660,537, of which Rs.612,080 was between 01 and 05 years and Rs.1,470,490 more than 05 years.	It will be settled in the future.	The reasons should be investigated and settled.
(b) Although the tax on land of Rs.832,301 related to the period 2018-2020 had been listed under the creditors, they had not been settled.	It will be settled in the future.	The reasons should be investigated and settled.
(c) The payable balance of pension contribution to the Pension Department of Rs.538,187 had not been remitted.	Action will be taken to settle.	Circular instructions should be followed.

3.5 Transactions of Contentious Nature

Audit Observation	Comments of the Council	Recommendation
Without recognizing the requirement 1273 soap bars worth Rs.180,766 were purchased and stored in the warehouse.	The price was fluctuated.	The requirement should be identified and purchased.

3.6 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
03 vehicles, 02 machines and 02 lands totaling Rs.206,654,644 remained idle and underutilized for a period between 01 and 15 years.	Action will be taken to provide to other organizations or sell.	Assets should be repaired and put into use, and assets that cannot be put into use should be disposed of.

3.7 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) 04 lands and buildings used by the council, the land where the rest house and the trade complex are located, were not taken over.	The takeover is being carried on.	The legal ownership should be duly acquired.
(b) A cab worth Rs.1,200,000, a single drum vibrating roller machine worth Rs.7,967,144 and a single cab of unrecognized value had not been taken over.	Actions are being taken.	Action should be taken to take over
(c) There was no security fence on the Kaladurukotuwa land which was 01 acre 01 rood 32.9 perche belonging to the urban council . although the land has been occupied by illegal residents, no action had been taken to remove them and survey the land and construct the fence.	If there are unauthorized residents, they will be removed.	Security of assets should be ensured.
(d) As the institution in charge of the management of the rest house has left after 31st August 2018, although the affairs of the rest house have been vested to the Council, it was closed by the council without making efforts to maintain it so that it could generate income, and also two council employees were employed for that rest house from April 2019 to December 2020, and a idle expenditure of Rs.1,544,061 had been incurred.	Since 2009, the management has been with the Urban Council.	Action should be taken to earn income.

3.8 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
Employee vacancies and excess		
(a) Comparing the approved staff with the actual staff, there were 28 vacancies in 16 posts and 17 excess in one post.	As per the provisions of the circular, it is not possible to deal with vacancies and excess staff is development officers.	Vacancies should be filled.
(b) During the period of 2018-2020, no arrangements were made to collect a loan balance of Rs.262,843 from 6 officers and employees who left the service, retired and transferred, and a loan balance of Rs. 36,000 from an officer who had transferred last year, had not been taken over.	Action will be taken to recover.	Loan balances should be recovered.

4. Accountability and Good Governance Sustainable Development Goal

Audit Observation	Comments of the Council	Recommendation
Although the council had identified sustainable development goals and targets and related indicators, they had not worked to achieve those goals	The related activities will be carried out in the future.	Sustainable development indicators should be identified and goals and targets should be achieved.