<u>Kegalle Municipal Council -2024</u>

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Kegalle Municipal Council including the financial statements for the year ended 31 December 2024 comprising the Statement of financial position as at 31 December 2024, Statement of Financial Performance ,Cash Flow Statement, statement of changes in equity for the year then ended and notes to the financial statements, 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 which should be read in conjunction with provisions in sub-section 10(1) of the Audit Act No. 19 of 2018, Section 219 of the Municipal Councils Ordinance (Chapter 252). My comments and observations which I consider should be reported to the parliament are appeared 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 Kegalle Municipal Council as at 31 December 2024 , 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

I expressed qualified opinion on the financial statement based 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 Sri Lanka Public Sector Accounting Standards 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 Municipal Council's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Municipal 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 Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council;

- Whether it has performed according to its powers, functions and duties; and

- Whether the resources of the Municipal 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

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

(a) The financial statements of the Municipal 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 of this report 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 Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	As the storage materials worth Rs. 15,391,544 purchased and used during the year were not written off under the relevant expenditure items, the operating expenses for the year were understated by that value, while the general storage stock was overstated by the same value.	That will be corrected in the final accounts of the year 2025.	Must be accounted for correctly.
(b)	The values of 03 trailers and 29 sports equipment owned by the council had not been identified and capitalized.	That will be corrected in the final accounts of the year 2025.	Must be accounted for correctly.
(c)	Due to the understatement of the value of machinery and equipment purchased during the year by Rs. 500,000, Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated by that value.	That will be corrected in the final accounts of the year 2025.	Must be accounted for correctly.

1.6.2 Unreconciled Control Accounts

	Audit Observation	Comments of the Council	Recommendation
(a)	There was a difference of Rs. 164,515,132 between the balance of Machinery and Plant and Furniture and Fixtures as per the financial statements and the balance as per the Fixed Assets Register.	The fixed asset register will be updated and relevant corrections will be made.	The reasons for the difference must be identified and corrected.
(b)	Although the tax value refunded at the end of the year under review according to the financial statements was Rs. 5,218,119, the value payable according to the tax returns submitted was Rs. 1,109,856, resulting in a difference of Rs. 4,108,263.	That will be corrected in the final accounts of the year 2025.	The difference must be identified and corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Detailed schedules relating to 05 accounting subjects totaling Rs. 5,705,541,731 were not submitted to the audit.	That the schedules will be updated and submitted to the audit.	Detailed schedules must be submitted.

1.7 Non- Compliances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571(2)	A total of Rs. 16,108,930 in entertainment taxes, city hall reservation fees, mixed deposits, tender and contract guarantees over 02 years had been held in the general deposit account without being cleared.	That will be corrected in the future.	Financial regulations must be followed.

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 2024 amounted to Rs. 88,380,630 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 148,477,448 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
Rs. 13,000, which had been brought forward for over 16 years as bank being over debit, included in the bank reconciliation relating to the Municipal Council's general fund, had not been settled.	That work will be done to resolve the matter in the future	Action must be taken to resolve the matter.

2.3 Revenue Administration

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

According to the information submitted by the Municipal Commissioner, the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

Source of income	2024				2023		
	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	R evenue billed	Revenue collected
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	12,200,000	16,326,411	15,742,392	6,369,023	8,054,482	5,746,037	5,590,343
Rent	73,126,890	76,705,612	74,883,883	7,013,606	55,788,296	55,343,185	5,379,087
License fees	4,425,500	3,340,825	3,207,297	300,088	2,317,557	2,723,357	164,000
Other Revenue	45,197,500	53,701,414	70,240,777	56,852,387	134,678,300	75,889,116	35,727,904
	134,949,890	150,074,262	164,074,349	70,535,104	200,838,635	139,701,695	46,861,334

2.3.2 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)	The assessment balance due as at 31 December 2024 was Rs. 6,369,023 and a time analysis was not submitted for audit. Also, although the assessed property is required to be assessed every 5 years for assessment collection, no reassessment had been carried out after the year 2000.	A time analysis will be prepared, steps will be taken to recover the outstanding assessment balance, and in the future, charges will be made according to the new assessment assessment.	Steps should be taken to assess the property as per the prescribed schedule and recover the arrears of assessment.
(b)	Sufficient steps had not been taken to recover the arrears of rent of Rs. 1,481,451 that was due as at 31st December of 2024.	That will be charged in the future.	Steps should be taken to recover the arrears of rent.
(c)	At the end of the year under review, the outstanding inn rent was Rs. 3,897,058, of which Rs. 1,215,726 had been outstanding for more than 05 years.	That will be charged in the future.	Steps should be taken to recover the arrears of rent.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	76 deposit balances worth Rs. 400,186 received in the years 2023 and 2024, which could have been taken as municipal council revenue, were retain in the general deposit account without being taken as council revenue.	That the deposits will be examined and taken into council revenue in the future.	Steps should be taken to include past due deposits that can be included in council revenue.
(b)	The Rs. 9,103,521 received by the Water Supply and Drainage Board from 2019 to 2023 for the repair of roads damaged for laying water pipes remained in the deposit account at the end of the year under review, and it was not confirmed whether the repair work on the relevant roads had been completed.	That will examine these deposits retain the general deposit account and take the necessary steps in the future.	Deposits should be cleared after verifying whether the relevant work has been completed.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	A survey had not been conducted for the year under review to identify institutions that were required to obtain environmental permits. Therefore, it was not possible to verify whether all institutions that were required to obtain environmental permits had obtained such permits, and the Council's responsibility regarding environmental protection in the area had not been adequately fulfilled.	A survey will be conducted and information on institutions that need to obtain licenses will be submitted for audit.	It should be regulated whether all institutions that require permits obtain environmental permits.
(b)	Although the decision given on 12th July of 2024 regarding the case filed on 20th January of 2023 regarding an unauthorized construction had ordered the demolition of the unauthorized construction, the construction had not been removed by the end of the year under review.	Although a written statement regarding the order was requested from the High Court Office, it has not been provided so far, so the implementation of the order continues to be a problem.	A written statement of the order should be obtained and action should be taken accordingly.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
Two compactor vehicles received from the Ministry of Internal Affairs, Provincial Councils and Local Government in 2019 remained idle.	Further steps regarding the two compactors will be taken after consulting with the council to be held in the future.	Steps should be taken to utilize those assets effectively or to transfer them to another local government institution in need.

3.4 Delays in Project Activities or Capital work

	Audit Observation	Comments of the Council	Recommendation
(a)	A portion of a three-storey building behind the Municipal Council office was constructed in two phases in 2014 and 2015 at a cost of Rs. 13,776,000. While the Municipal Council had a fixed deposit balance of over Rs. 388 million, the remaining work on the building had not been completed by the end of the year under review, and the concrete slab had been exposed to rain for about 10 years, which could have damaged the strength of the building.	It is hoped that budget proposals for this industry will be submitted in 2025 and the remaining work will be done.	Efforts should be made to complete development projects efficiently and effectively.
(b)	The construction of Phase II of the Olagama Swimming Pool in the Kegalle Urban Division had commenced on 28th October 2019. Although Rs. 18,571,534 had been spent on this as at 09th September of 2024, the pool had not been completed and was unusable by the end of the year under review. Also, the warranty period of the equipment worth Rs. 2,521,000 installed in the pool had expired without being used.	It is expected that the remaining works will be completed and put into public use in 2025.	Efforts should be made to complete development projects efficiently and effectively.

3.5 Management of Vehicle fleet

	Audit Observation	Comments of the Council	Recommendation
(a)	Although a tractor that was involved in an accident on 25th of May 2023, had been sent for repair on 3rd of October 2023, it had not been repaired by the end of the year under review. Therefore, it was not possible to recover the insurance claim related to it.	That the repair work will be carried out expeditiously.	Repairs should be completed promptly and insurance claims should be reimbursed.
(b)	Although the mileage meters of 19 vehicles owned by the Municipal Council had been iinactive for more than 10 months, no steps had been taken to repair them or install new meters.	It has been sent for repairs, where mileage repairs are also being carried out.	Arrangements should be made to repair mileage meters or install new meters.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Council	Recommendation
Of the 34 development projects included in the 2024 Action Plan, 33 projects had not been implemented.	That the planned projects were not paid attention to and that the plans submitted on time had to be implemented as development projects.	Action should be taken to achieve the objectives of the action plan and, where necessary, to formally revise and approve it.

4.2 Audit Management Commitee

Audit Observation	Comments of the Council	Recommendation
Although Section 5.3 of the Management Audit Circular DMA/01-2019 dated 12th January 2019 requires a minimum of 04 Audit and Management Committee meetings to be held per year, not a one meeting was held during the year under review.	While no audit committees were held in 2024, an audit management committee was held for the first quarter of 2025.	At least 04 Audit and Management Committee meetings should be held per year.