

Kinniya Urban Council - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kinniya Urban Council for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 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 sub-section 10 (1) of 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 **Kinniya** Urban Council as at 31 December 2024, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices.

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 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 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 Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) As at the end of the year under review, the total of arrears market rent, arrears stamp duty, refundable market deposits, equipment and tools, asset maintenance and repair expenses, arrears assessment tax and arrears advance account, etc., were overstated in the financial statements by Rs. 73,599,749.	After adjusting the correct balance, adjustments will be made to the ledger accounts.	Action should be taken to correct the accounts and bring forward the correct balance, and correct balance should be shown in the financial statements.
(b) In the year under review, property taxes received for the year 2025, amounting to Rs. 145,550, were not shown as current liabilities in the financial statements.	Action will be taken to correct this error.	Action should be taken to present receipts for the next year as current liabilities in the financial statements.
(c) The value of 107 items belonging to 36 categories of assets sold at auction and 111 items belonging to 16 categories of assets destroyed during the year under review had not been identified and deducted from the cost of the assets.	Action will be taken to deduct the value of assets sold at auction and assets destroyed during the year under review from the cost of those assets.	Action should be taken to reduce the cost of assets sold at auction and assets destroyed.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to the fact that evidence relating to 06 fixed asset account subjects with a total value of Rs. 117,971,325 was not submitted for audit, it was not possible to examine them satisfactorily.	Action will be taken to correct them next years.	Action should be taken to submit evidence of assets and maintain records.

1.7 Non- Compliances

1.7.1 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 and Regulations	Non-compliance	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571(1),(2), (3)	No action had been taken to refund or transfer to revenue 150 library and other deposits totaling Rs. 11,311,383 that were lapsed for more than two years to the relevant individuals.	Action is being taken to transfer the money to the revenue account.	Action should be taken to identify and settle lapsed deposits.

1.7.2 Non-compliance with tax requirements

Audit Observation	Comments of the Council	Recommendation
In accordance with Guideline 5.4.12 of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka, no Actions had been taken to report the value added tax of Rs. 1,294,520 paid to a contractor on two occasions during the year under review to the Inland Revenue Department.	Action will be taken to prevent such errors from occurring in the future.	Necessary action should be taken.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2024 amounted to Rs. 1,479,157 as compared with the excess of recurrent expenditure over revenue amounted to Rs. 381,176 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

		2024				2023			
	Source of Revenue	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31December
		Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
(i)	Rates and Taxes	6,200,000	10,347,000	8,175,000	11,786,000	7,761,000	12,606,000	2,992,000	9,614,000
(ii)	Rent	20,750,000	12,495,000	11,160,000	66,346,000	20,000,000	69,604,000	4,593,000	65,011,000
(iii)	License Fees	5,995,000	6,206,000	6,206,000	---	5,245,000	3,079,000	3,079,000	---
(iv)	Other revenue	6,430,000	2,536,000	2,520,000	14,445,000	7,113,000	16,760,000	2,331,000	14,429,000
(v)	Total	39,375,000	31,584,000	28,061,000	92,577,000	40,119,000	102,049,000	12,995,000	89,054,000

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 & Tax		
Action had not been taken to collect the assessment tax arrears of Rs. 9,614,000 from the last 05 to 10 years even by the end of the year under review.	Currently, the arrears of the current year are being collected along with the taxes.	Action should be taken to promptly collect arrears assessment taxes.
(b) Rent		
The Council had not taken actions to collect the arrears of rent amounting to Rs. 29,140,200 from the year 2016 to the end of the year under review.	Action will be taken to collect the outstanding amount.	Necessary action should be taken.
(c) Stamp Duty		
The Council had not taken actions to recover Rs. 941,880 in stamp duty on land transactions during the period up to 2023.	Action will be taken to collect stamp duty within the stipulated time in the future.	Action should be taken to collect stamp duty within the stipulated time.

3. Operational Review

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 Public and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

3.1 Operational inefficiencies

Audit Observation

The Council had not taken action to recover rent from the Secretary of the Council, who resided in the tourist bungalow located on the Thuraiyadi Road owned by the Council, for 20 months from 31 July 2023 to 07 May 2025. Furthermore, in the years 2022 and 2023, an income of Rs. 586,000 had been generated by renting out the house to outsiders.

Comments of the Council

It is believed that the rent will be provided through court in the future.

Recommendation

Arrangements should be made to rent out the tourist bungalow to guests and appropriate rent should be collected from the secretary.

3.2. Management inefficiencies

Audit Observation

Action had not been taken to acquire the ownership of 41 lands, with the area of 60.83 acres, owned by the council and located within the council area.

Comments of the Council

After receiving the land surveys, action will be taken to acquire the ownership of those lands from the Divisional Secretary.

Recommendation

Action should be taken to acquire ownership of 41 lands owned by the council by the council.

3.3 Assets Management

Audit Observation

Comments of the Council

Recommendation

3.3.1 Idle Assets

- (a) The machinery purchased for Rs. 2,150,000 for the production of organic fertilizer in the year 2022 remained idle without being used for the appropriate purposes. Furthermore, the council had not taken actions to put the compost crushing machine into operation.

Action will be taken to fully utilize this machinery for the organic fertilizer production project in the future and generate income for the council.

Action should be taken to deploy the machinery to the relevant project.

(b)	The Council had not taken actions to repair and restore to working condition 09 vehicles belonging to the Council that could be repaired and used.	Accepted. Action will be taken to repair these vehicles and make them operational in the future.	Appropriate action should be taken regarding vehicles.
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3.4 Procurements Management

Audit Observation

In terms of Eastern Province Financial Circular No. PT/04(i)/2017 dated 21 September 2017, 05(b), a person with specialized knowledge should be appointed as a member of the Technical Evaluation Committee during the procurement process. However, an electrician had not been appointed to the Technical Evaluation Committee during the procurement process of electrical items purchased for Rs. 1,797,540.

Comments of the Council

Action will be taken to appoint a person relevant to the field to the Technical Evaluation Committee in the future.

Recommendation

Action should be taken to appoint a person with knowledge in the field to the Technical Evaluation Committee.

3.5 Resources released to other organizations

Audit Observation

The council could have implemented the project to install solar panels using council revenue and other funds and earned 100 percent of the revenue, but instead of doing so, an agreement has been entered upon with private company to install solar panels on the roofs of the council's library building, fish market and solid waste center, and the council would receive 6 to 18 percent of the project's revenue. The private company had been given the opportunity to earn a higher percentage of revenue by installing its own solar energy panels, which could generate an annual income of approximately Rs. 20 million.

Comments of the Council

The installation of solar panels is being carried out on the instructions of the Honorable Governor of the Eastern Province. Agreements were signed with the said institution for the installation of solar panels for **20** years on the instructions of the Eastern Local Government Commissioner and the Assistant Local Government Commissioners. arrangements are being made to notify the said institution in writing by renewing the agreements every **03** years.

Recommendation

Action should be taken in accordance with sub-section **36(e)** (ii) of the Councils Ordinance (Chapter **255**).

3.6 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) Action had not been taken to appoint permanent officers to the posts of Secretary and Accountant, which had been vacant for a long time.	Although the vacancies for the posts of Secretary and Accountant were notified in the monthly staff report, the appointing authority has not yet appointed them.	Appropriate action should be taken to fill the vacancies.
(b) No action had been taken for over 2 years to recover the outstanding loan of Rs. 243,540 from 02 officers suspended from the service of the Council and Rs. 71,220 from 02 retired officers.	Due to the fact that their retirement gratuity has not been paid by the relevant department up to now, the outstanding loans due from two retired officers have not been received.	Appropriate action should be taken to recover the arrears.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
During the year under review, Rs. 1,355,000 of the budget allocations made for 23 recurrent and capital expenditure subjects were left unutilized for the relevant purposes. As a result, it was observed during the audit that the budget had not been used as an effective management control tool.	Arrangements have been made to complete this program in 2025.	The budget should be prepared in an effective manner that contributes to financial control.

4.2 Environmental Problems

Audit Observation	Comments of the Council	Recommendation
In accordance with Section “B” of the National Environment Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and No. 53 of 2000, and Extraordinary Gazette Notification No. 2264/18 dated 27 January 2022, environmental permits had not been obtained for the Solid Waste Center.	Since there are no title deeds for the property, the process of obtaining them is being carried out through the Divisional Secretariat.	The deficiencies should be corrected and the environmental permit should be obtained.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
Although the Council was required to appoint 02 senior officers to formulate its policies and strategies in line with the Sustainable Development Goals, in accordance with the Cabinet Decision No. 18/0593/708//008 dated 23 April 2018, no action had been taken in the last 05 years.	Accepted. Arrangements are being made to appoint two officers in the near future.	Action should be taken to appoint 02 senior officers to formulate policies and strategies.