

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Kalutara Urban Council including the financial statements for the year ended 31 December 2022 comprising the Statement of Assets and Liabilities as at 31 December 2022, Comprehensive Income Statement, statement of changing Equity. Cash Flow Statement for the year and 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 Sub-Section 181 (1) of the Urban Council Ordinance (Chapter 255) and the provisions of the 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 accompanying financial statements give a true and fair view of the financial position of the Kalutara Urban Council as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

**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 Principles, 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 skepticism 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 economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

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

Non-compliance with reference to relevant standard	Comment of the Council	Recommendation
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The statement of cash flows had not been prepared in accordance with paragraphs 3.27 to 3.32 of the Standard.	Although the cash flow statement is inconsistent with the theory of preparation, the cash	The Cash flow statement should be prepared in accordance with Public
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flow statement has not been numerically affected. Sector Accounting Standard for Local Government Authorities.

## 1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
Although the fixed deposit interest income and receivable interest income for the year under review are Rs. 24,017,493 and Rs. 21,705,750 respectively, however the interest income as Rs. 24,288,709 that is overstated by Rs. 271,216 , and the receivable interest income as Rs. 21,066,667, that is understated by Rs.639,083,had also been accounted	It will be corrected during the preparation of the account for the year 2023.	Revenue should be accounted on accrual basis.

## 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 2022 amounted to Rs. 34,345,527 as compared with excess of revenue over recurrent expenditure amounted to Rs. 40,481,432 in the preceding year.

## 2. Revenue Administration

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

According to the information presented by the Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	42,552,200	43,787,063	48,773,656	31,478,437	40,751,000	41,249,783	28,800,619	36,249,409
(ii) Rent	19,259,900	14,233,583	10,717,823	398,700	13,475,000	8,068,319	8,777,469	256,849
(iii) License Fees	2,276,000	2,454,024	2,453,374	-	200,000	559,266	559,266	-
(iv) Other Revenue	208,261,900	235,215,781	168,382,886	81,066,667	2,127,000	2,759,655	2,762,655	19,800
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	<u>272,350,000</u>	<u>295,690,451</u>	<u>230,327,739</u>	<u>112,943,804</u>	<u>56,553,000</u>	<u>52,637,023</u>	<u>40,900,009</u>	<u>36,526,058</u>

## 2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below

Audit Observation	Comment of the Management	Recommendation
(a) The deficit from 02 to 03 years is Rs.4,290,844, the deficit between 03 to 05 years is Rs.1,887,185, the deficit between 05 to 10 years is Rs.1,297,440, and the excess deficit over 10 years is Rs.205,517 as at 31 December 2022.	The collection of assessment income is in progress	Arrears of income should be collected as soon as possible.
(b) The stamp fees receivable was Rs.60,000,000 from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2022	The action will be taken to collect an amount of Rs.9,294,230 in the year 2023	Arrears of stamp duty should be remitted as soon as possible.

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The generator that was handed over for a repair in the year 2019 had not been repaired and received by the council at the end of the year under review.	As it is in the last stage of repair, it will be brought to the council as soon as possible	Assets of the council should be repaired and taken back in due time.
(b) The engine of the Isuzu lorry, which was handed over to a private company for repair on 23 September 2020, had not been repaired and returned to the council even as at the end of the year under review.	As it is in the last stage of repair, it will be brought to the council as soon as possible	Assets of the council should be repaired and taken back in due time.

### 3.2 Transaction contentious nature

Audit Observation	Comment of the Council	Recommendation
(a) The Municipal Council Ordinance of 1988 did not provide for courses for members. However on the approval of the Council, Rs. 74,500 for three members in the year 2020 and Rs. 20,000 for one member in the year under review were paid to the relevant training institutes.	One member was unable to submit certificates as he had to re-appear for the final examination and another member was unable to complete the course so far.	Action should be taken accordance with Urban Council Ordinance.
(b) The internal road of Pilipneri Church, 64 meters long and 3.65 meters wide, which does not belong to the Council, was developed by laying tarmac on direct	The public roads within the city limits are regularly repaired.	Roads not belonging to the council should not be developed.

labour basis without the approval of the Council.during the year under review.

- (c) The issue order No. 2174 without a signature of the Secretary and Stores Officer and a date, had taken raw materials from the stores for a project without formal approval and supervision. The goods were requested by the chairman and the goods were received by the then work supervisor. Goods should not be issued from the stores without formal approval.

### 3.3 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the Council	Recommendation
The bell machine, which has been out of operation for several years, was not repaired during the year under review.	The repair was not done due to difficulty in finding spare parts and will be repaired in the year 2023.	The assets of the Council should be utilized to the maximum extent.

### 3.4 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) 03 vehicles owned by the council had received mechanical engineering recommendations for repair, however by the end of the year under review, they had not been directed for repair work.	The repair was not done due to difficulty in finding spare parts and will be repaired in the year 2023.	Vehicles should be repaired and used.
(b) According to mechanical engineering recommendations, it was stated that repairing of 04 vehicles owned by the council is not economically effective, however the action was taken in this regard.	Repair of 02 vehicles is not effective and the chassis numbers of remaining 02 vehicles cannot be found.	Vehicles that cannot be repaired should be disposed.
(c) 03 vehicles owned by the Urban Council were not registered in the name of the council at the end of the year under review.	As the repair of these 03 vehicles is not economically effective, the motor vehicle department has been informed and the mechanical engineer has been instructed to sell the vehicle as scrap.	Vehicles owned by the council should be registered in the name of the council before being sold as scrap.

### 3.5 Deficiencies of Contract Administration

Audit Observation	Comment of the Council	Recommendation
Although 04 barrels were obtained for the second tar coating of the road under item number 06 of the issue order no 242 dated 05 October 2022, the road was not tarred for the second coat and the relevant 04 barrels were not in the custody of the work supervisor.	04 barrels of tar had been obtained for the second tar coating under Item No. 06 of Issue Order 242.	Resources should not be misused.