

Katunayake Seeduwa Urban Council – 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katunayake Seeduwa 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 changes in net assets/ equity and 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 Councils Ordinance (Chapter 255) and 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 financial statements give a true and fair view of the financial position of the Katunayake Seeduwa Urban Council as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statements 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 Governments, 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 include 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 except the audit matter of 1.6.2 (e) described in paragraph 1.6 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
If there are any capital works in progress as per paragraph EG 3.1 included in the detailed instructions for the standard, instead of showing them as a separate category under property, plant and equipment under the name of unfinished work, Rs. 116,469,612 unfinished work was shown under long-term receivables.	That will be indicated from next year.	Financial statements should be prepared in accordance with the standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the council	Recommendation
(a) The worth of 13 printing machines amounting to Rs.503,000 owned by the urban council were not accounted for.	That they will work to account correctly in the future year.	Accounting should be done correctly.
(b) Although the depreciation value of the machinery for the year under review should have been Rs.2,540,878, it was accounted as Rs.2,527,378 thus understated so it by Rs.13,500.	-do-	-do-
(c) The value of office equipment had been accounted overstated by Rs.1,656,086 and the value of furniture had been accounted understated by Rs.1,656,086 in the year under review.	-do-	-do-
(d) Due to the non-adjustment of Rs.1,860,278 related to 3 industries where work was completed and paid during the year under review, which had been accounted under unfinished work and under creditors on 01 January 2021, the unfinished work account and the creditor account were overstated by that amount.	-do-	-do-

- (e) Although Liyanagemulla Sanwardana Mawatha Community Hall was valued at Rs.8,000,000 and accounted under buildings, in the year 2020, the estimated value of the first floor of the building Rs.1,961,949, which was accounted under unfinished work and under creditors, so the unfinished work account and the creditor account were overstated. -do- -do-

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the council	Recommendation
Although the value of the Kurana Katunayake Samagi Mawatha land purchased in the year under review was Rs.12,376,472, it was shown as Rs.12,473,722 in the fixed assets schedule, which was a difference of Rs.97,250.	That the fixed asset schedule and fixed asset register be corrected and submitted in the future year.	The changes in the respective balances should be compared and the accounts or schedules should be corrected.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the council for the year ended 31 December 2022 amounted to Rs.177,782,346 as compared with the excess of revenue over expenditure amounted to Rs. 193,042,302 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the council	Recommendation
Although according to the summary cash book as at 31 December 2022, the cash balance in the bank should be Rs. 19,257,107, it was shown as Rs. 19,272,588 in the financial statements and was overstated by Rs. 15,401.	Corrections will be made in the future year.	Financial statements should be prepared accurately.

2.3 Revenue Administration

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

According to the information presented by the chairman, information 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	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	000'	000'	000'	000'	000'	000'	000'	000'
(i) Rates and Taxes	153,675	156,364	149,987	56,245	152,565	153,032	131,048	49,868
(ii) Rent	8,550	11,939	12,031	882	9,600	11,072	8,425	6,176
(iii) License Fees	5,321	4,965	4,965	-	5,001	3,163	3,163	-
(iv) Other revenue	118,025	133,233	129,081	18763	110,583	94,701	95,669	17,094
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	285,571	306,501	296,064	75,890	277,749	261,968	238,305	73,138
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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) Rs.12,776,830 was remained to be collected from 95 units whose rates value of a unit exceeds Rs.50,000 as at 31 December 2022.	That related activities are being carried out to recover the arrears.	Actions should be taken to recover the arrears as per the provisions of the Act.
(b) According to the Industrial Tax/Business Tax/Trade License 2022 survey report, although 1282 business units had been reported 969 business units had not been billed for Rs.969,000 as at 6 October 2022.	That billed for 810 units and the relevant fees have been arranged to collect.	Billing should be done correctly.

3. Operational Review

3.1 Performance 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
During the physical inspection, it was observed that between 26.5 and 30.5 metric tons of waste was dumped informally in the open waste area daily.	It is informed that soil application is done in necessary cases and disinfection and fumigation are done once a week to prevent the breeding of mosquitoes and flies. A natural tree cover of about 100 feet lies between the landfill and the lagoon so that there is no damage.	Attention should be paid to environmental pollution and public health.

3.3 Management Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) An advance account of government officials was not prepared.	Prepared and submitted for the year 2023.	An advance account of government officials should be prepared.
(b) According to the board of survey report as at 31 December 2022, there were no deeds or plans related to 27 lands identified as lands owned by the council.	That steps have been taken to prepare declaration deeds for the respective lands.	Actions should be taken to prepare the plans and to obtain the deeds.
(c) Actions had not been done to recover the property loan interest amounting to Rs. 77,977 remained from the year 2019.	That will be collected by the next year.	Actions should be taken to recover the interest.
(e) Action had not been taken to identify the outstanding cheque balance of Rs.61,870 which existed before the year 2016.	That it will be identified and settled in the future year.	Actions should be taken to identify the outstanding cheques and to settle.
(f) The amount of Rs. 1,267,457 due from the Katana Divisional Secretary regarding the years 2015, 2016, 2017 and 2020 had not been recovered by the date of audit on 24 April 2023.	That an amount of Rs.305,381.70 has been collected from the amount to be collected and the remaining amount will be collected in the future year.	Actions should be taken to recover the amount due.
(g) Actions had not been taken to recover the surcharge balance of Rs. 1,677,409 remained from the year 2020 after identifying the party to be charged.	That the fine amount will be collected in the future.	-do-
(h) Actions had not been taken to settle the payable loan interest value of Rs.1,008,710 remained before the year 2019 .	That the actions will be taken to settle in the future year.	Actions should be taken to settle the loan interest payable.
(i) The ownership of a car used by the council had not been transferred to the urban council by the date of audit on 20 April 2023.	That the ownership of this vehicle will be taken over in the future year.	Arrangements should be made to take over the vehicles.
(j) A fixed asset register was not maintained for buildings and plant valued at Rs.481,670,750.	That steps will be taken to prepare the registers.	A fixed asset register should be maintained.

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| (k) | Action had not been taken to get a report on the amount of gas used to burn one dead body. | That a report on the amount of gas used to burn one dead body will be prepared in the future and submitted to the audit. | Records must be maintained accurately. |
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3.3 Operational Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) Even though the rights were assigned to 03 lands owned by the council through letters of assignment, no declaration deeds had been obtained for the same.	At present, a program has been implemented to hand over government lands to the relevant local authorities and 2 lands have been included in that program, and the land where the Fisherman's Community Hall is located is a land assigned by the Housing Development Authority.	Declaration deeds should be obtained and ownership verified.
(b) There were no clear and formal plans related to 07 lands of 01 acre 28.76 perches owned by the council.	That the plan mentioned as 7 Acres 01 Rood 12.25 Perches is a proposed plan for a some project and no number has been given.	Clear and formal plans should be prepared.
(c) Although Liyanagemulla Crematorium and Bandarawatta Cemetery and Kumbhageya buildings were valued at Rs.10,000,000 and Rs.2,500,000 respectively, the council did not have any legal documents such as a deed or a plan for the land with these buildings.	That work is being done to prepare declaration deeds for this purpose.	Declaration deeds should be obtained and ownership verified.
(d) Although 05 buildings with a value of Rs.74,000,000 had been considered as assets of the council and taken into accounts, the rights for those buildings had not been settled legally.	That the land related to these 5 buildings belongs to the program implemented to give government land to local authorities.	Rights for buildings Legal should be settled legally and ownership confirmed.
(e) The main office, a part of the playground and some other buildings also belonged to a piece of land assigned to the council by Gazette Notification No. 9354 dated 12 January 1945. Later, a piece of land measuring 2 Roods 31.75 perches was		

handed over to the council and it was confirmed that 07 acres 8.25 perches were mentioned in the plan that had been prepared. The following observations are made in this regard.

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| I | According to the asset register, the land area belonging to the council was mentioned as 7 acres 23 perches, but according to the map No. 4820, the land area was mentioned as 06 acres 1 rood 16.5 perches, as the land area belonging to the council was not confirmed. | That the council has not lost an amount of 01 rood 4.25 perches of the urban council land. | The area belonging to the council should be ascertained. |
| II | It was revealed during the physical inspection on 26 October 2022 that the permanent houses in the housing complex shown 30.5 perches as Lot No. 2 on the western boundary of the plan showing 7 acres 8.25 perches were not identified as council property and were being enjoyed as permanent houses by 4 outside parties. | That letters have been forwarded to the Valuation Department for providing a rental valuation for the 04 rental houses concerned. | Efforts should be made to prevent illegal settlements. |

3.8 Assets Management

Audit Observation	Comments of the council	Recommendation
The Komatsu type (D 39 PX-22) D5D solid waste management machine purchased at a cost of Rs. 33,500,000 on 27 August 2020, was physically observed as at 30 September 2022, without any cover, located next to the garbage yard.	That the work of preparing a cover to park the said machine has been done and is in the final stage.	A feasibility study of such machines should be done and procured and arrangements should be made to employ a machine operator to operate the machine.