

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Kesbewa Urban Council for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Sub-section 181(1) of the Urban Council Ordinance (Chapter 255). My comments and observations which I consider should be reported 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 Kesbewa Urban Council as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Authorities.

**1.2 Basis for Qualified Opinion**

A qualified opinion on financial statements will be expressed 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 Government Authorities, and for such internal control as management determines 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 Sub-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 to be prepared of the Urban Council.

#### **1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Urban Council's 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

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

- (a) The financial statements of the Urban Council are 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 recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned 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 Unreconciled Accounts

Audit Observation	Comment of the Council	Recommendation
When comparing the balances related to 04 items of account stated in the financial statements with the relevant schedules, there was a difference of Rs.405,131.	Correction will be made in the preparation of final accounts, 2022.	Accounts balances should be corrected by identifying differences.

### 1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation
Since the age analysis and other information were not submitted, the Entertainment Tax balance of Rs. 281,047 could not be satisfactorily examined during the audit.	As there is no methodology to recover this balance, further approval has been sought to adjust the documents.	Essential information should be examined and presented in order to confirm the value.

## 1.7 Non-compliance

Non-compliance with laws, rules, regulation and management decisions

Instances of non-compliance with laws, rules, regulation and management decisions are as follows. . .

Reference to laws, rules, regulation etc.	Non-compliance	Comment of the Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.177 (1)	After retaining collected outstanding rates in hand, they had been deposited with delays.	Letters have been sent inquiring about reasons for the delays and they have submitted the reasons in this regard. Furthermore, office	Action should be taken in accordance with Financial Regulations

orders have also been issued to the officers who collect the outstanding revenue regarding these delays. The Audit has been informed in this connection on 22.02.2023.

- (b) Public Finance Circular No.03/2015 dated 14 July 2015 and Financial Regulation 371 (5) Although the staff officer who obtains sub-imprest should settle the imprest within 10 days from the completion of the relevant work, advance obtained during the year under review had been settled with delays. Payments had been settled with delays in relation to 10 cases. Action will be taken to issue internal circulars with regard to minimizing delays in settling these bills and to prevent these delays in the future. Action should be taken in accordance with the circular and the Financial Regulations.

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements presented, the expenditure of the Council in excess of the recurrent revenue amounted to Rs. 175,382,222 as at 31 December 2022 as compared with the corresponding expenditure exceeding the recurrent revenue for the preceding year amounting to Rs. 49,134,973.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

Particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue presented relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Rates and Taxes	84,000,000	84,000,000	50,162,444	33,834,556	84,500,100	83,427,809	79,314,222	70,414,711
Rents	15,500,000	12,656,200	13,699,622	1,239,839	21,076,000	12,763,479	13,770,532	2,937,390
License Fees	1,500,000	1,488,000	1,488,000	-	1,500,000	1,536,600	1,528,600	-
Other Revenue	290,000,000	315,000,000	315,000,000	-	225,000	191,250	191,250	-
<b>Total</b>	<b>391,000,000</b>	<b>413,144,200</b>	<b>380,350,066</b>	<b>35,074,395</b>	<b>107,301,100</b>	<b>97,919,138</b>	<b>94,804,604</b>	<b>73,352,101</b>

## 2.2.2 Performance in the Collection of Revenue

The observations on the performance in collecting revenue of the Council are as follows

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>(a) Rates and Taxes</b>		
As the Council had not taken action to recover rates in terms of Section 170 of the Urban Council Ordinance, the balance of outstanding rates as at 31 December 2022 was Rs. 68,572,810 and the outstanding balance due from 47 rating units with the arrears exceeding Rs.50,000 amounted to Rs. 5,152,197.	Out of the total outstanding rate balance as at 01.01.2023, the amount due from 53 rating units with outstanding amount exceeding Rs.50,000 is Rs. 5,759,896.18, of which an amount of Rs. 607,672.56 had been paid in relation to 06 properties.	Action should be taken to recover the revenue in arrears.
<b>(b) Garbage Tax</b>		
The value of the Garbage Tax recoverable as at 31 December 2022 totaled Rs. 3,724,445 and the balance due from 10 institutions that did not make any payment for the disposal of garbage for the year 2022 was Rs. 1,185,955 as at 31 December 2022.	Out of the total Garbage Tax recoverable as at 31 December 2022, a sum of Rs. 1,528,705.50 has been recovered and Rs. 3,724,445.50 is yet to be recovered.	Action should be taken to recover the outstanding Garbage Tax income.
<b>(c) Rent</b>		
<b>(i)</b> Within the outstanding balance of Rs. 1,764,055 that remained recoverable as at 31 December of the year under review in relation to 133 properties given on long-term lease by the Council, the amount due from 16 properties with more than 10 outstanding installments was Rs. 112,500.	Out of the value of Rs. 314,900, a sum of Rs. 202,400 has been recovered up to 31.03.2023 and steps are being taken to recover the remaining amount as well.	Action should be taken to recover the property income that remained outstanding.
<b>(ii)</b> Out of 20 fish stalls of the Council, 07 had been closed without giving them on lease.	Although tenders were called for the 07 fish stalls closed, any applicant did not forward tenders	Action should be taken to earn income.

and as such, arrangements have been made to use them for another income earning opportunity.

**(d) Entertainment Tax**

<p>No action had been taken to recover the entertainment tax of Rs. 281,047 that continued to exist for more than a period of 05 years.</p>	<p>Although approval has been received by the General Assembly Decision No. (144) 6.4 dated 08.11.2018 to write off this amount of tax, the approval of the Chief Minister and the Minister in charge of the subject of Local Government has not so far been received to write off the outstanding entertainment tax. As such, it has been brought forward as an outstanding balance in the accounts.</p>	<p>Action should be taken to recover the outstanding revenue.</p>
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**(e) Transmission Towers**

<p>Fifty six transmission towers had been identified in the Council area and 08 of such towers had not been assessed and assessment numbers had not been given even by 31 December 2022.</p>	<p>The relevant institutions have been informed to send a copy of the building plan in order to assess the unassessed towers and further actions are being taken to recover the amount that remains recoverable from the towers at present.</p>	<p>Action should be taken to identify transmission towers and recover the revenue.</p>
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**3. Operating Review**

**3.1 Execution of the Functions Entrusted by Act**

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 04 of Urban Council Ordinance , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

**Audit Observation**

**Comment of the Council**

**Recommendation**

**(a) Waste Management**

<p>During the year under review, 11394 tons of mixed garbage had been handed over to the Karadiyana Waste Yard and</p>	<p>Arrangements have been made to expand the people awareness activities for increasing the amount of segregated waste and to expand</p>	<p>Action should be taken to ensure proper segregation of waste.</p>
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out of the total quantity of waste, the unsegregated amount was 69 per cent. the waste segregation activities of the recycling centre, and to conduct waste fair programmes at villages level.

**(b) Sustainable Development**

Although an institutional action plan had been prepared for the sustainable development for the period from 2019 to 2023, an annual sustainable development plan had not been prepared incorporating budget provisions for the activities planned for the year 2022.

An annual sustainable development plan including budget provision for the year 2023 will be prepared in the ensuing year.

An annual plan should be prepared in order to achieve long-term goals.

**3.2 Management Inefficiencies**

Audit Observation	Comment of the Council	Recommendation
(a) According to the Assistant Commissioner of Local Government’s Letter No. LGD/10A/4/2019 dated 01 February 2021, it has been informed that the assets should be revalued and accounted for. Nevertheless, the Council had not revalued certain assets even in the year 2022.	According to the instructions received as per the Assets Management Circular No.4/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media and the letter of the Assistant Commissioner of Local Government, lands, buildings and vehicles of the Council were revalued and accounted for in the presentation of financial statements from the year 2020, and revaluation of other fixed assets of the Council is in progress at present.	Action should be taken to revalue all fixed assets.
(b) Although the Provincial Council creditors balance of Rs. 99,962,393 as at 31 December of the year under review included a balance of Rs. 3,647,895 related to the years from 2017 to 2020 and a balance of Rs. 7,239,864 related to the year 2021, action	After settling balances by confirming them through inquiries with the relevant creditors and the Divisional Secretariat, action will be taken to submit it in the preparation of final accounts for the year 2023 and a part of the payments have been made in the year 2023 and the balance that	Action should be taken to settle payable loan balances.

- had not been taken to settle those balances. further remains recoverable is Rs. 10,887,759.30.
- (c) Tender deposit securities of Rs. 769,900 had not been settled from the year 2015 to 2021. Action will be taken to credit that amount to the Revenue in the year 2023. Action should be taken to settle payable balances.
- (d) For the purpose of providing a set of exercise books to the school students from the year 02 to year 05 of the school in the Kesbewa area before the 2021 vacation, books had been obtained from the State Printing Corporation on credit basis on 29 December 2021, and out of those sets of books, 306 sets of books worth Rs. 111,029 had been kept in the stores without being distributed. Three hundred sets of books reserved for the distribution but remained undistributed due to not returning the applications given for the distribution of books, and 06 sets of books out of the sets of books given for the distribution in case of mistakes in the distribution, still remain. As the books which could not be distributed will be distributed annually, all the remaining books in the previous year will be used for the next year's distribution. Specially, with the significant increase in the book price this year, the quantity of books available for distribution from the allocated financial provision decreased, and as such, the 306 sets of books remaining from the previous year distribution will be used in this year's book distribution. Action should be taken to distribute the remaining books.
- (e) No transactions had been carried out from the normal savings account with a balance of Rs. 37,753,674 maintained on behalf of the Urban Development Authority. Due to the reasons such as provisions being inadequate owing to increase in the estimated value of the project proposed to be implemented by that account as a result of increase in the prices upon the prevailing economic position of the country, and as the expenditure from that account should be incurred only upon the approval of the Urban Development Authority, transactions were not carried out from this account. Action should be taken to carry out projects from this account.



### 3.3 Human Resource Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Although the employees' loan balance to be recovered as at 01 January 2022 was Rs. 43,659,052, that balance included a loan balance of Rs. 550,849 due from 10 officers from the year 2011 to 2018.	Not commented.	Action should be taken to recover the outstanding loan balances.

### .34 Annual Survey of Stores

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Stock registers and inventories of the libraries and other offices belonging to the Council had not been updated.	Not commented.	Documents should be updated.