

## **Kuliyapitiya Urban Council - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kuliyapitiya Urban Council including the statement of financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, statement of changes in 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 the Sub-section 181 (I) of Urban Councils Ordinance (Chapter 255) and the Provisions of the Sub-section 11 (I) 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 Kuliyapitiya Urban Council as at 31 December 2022, 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 express a qualified opinion in respect of the financial statements 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 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 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 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

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	The 318 disposed library books valued at Rs.43,600 had not been removed from the library book account.	Actions will be taken to be accounted for in future.	It should be accurately accounted for.
(b)	The 9,495 kg of compost fertilizer remained as at 31 December of the year under review valued at Rs. 1,113,940 had not been accounted for.	Necessary actions will be taken in preparing the annual accounts for the year 2023 .	-do-
(c)	The balance of the loan payable to the Local Credit Development Fund as at 31 December 2022 had been overstated by Rs.9,682,040 .	The relevant activities will be carried out to correct the loan balance.	-do-

## 1.6.2 Unreconciled Control Accounts

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
There was a difference of Rs.28,760,311 between the total of 2 accounting objects according to the financial statements and the total in schedules.	Actions will be taken to correct in the future.	It should be accurately accounted for.

## 1.7 Non - compliance

### Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Financial Regulations of Democratic Socialist Republic of Sri Lanka Financial Regulation 571	The lapsed deposits of Rs.8,755,545 pertaining to 587 cases as at 31 December 2022 had not been taken to income.	The deposits in long-term leased properties cannot be released and actions are being taken to release the other deposits identified.	Action should be taken as per the financial regulations.

## 2. Financial Review

### 2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Council was Rs. 3,134,250 for the year ended 31 December and the correspondence revenue that exceeded the previous year's recurrent expenditure was Rs. 27,042,883.

### 2.2 Revenue Administration

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

The estimated income, billed income, collected income and arrears of income presented for the year under review and the previous year are as follows.

Source of Income	2022				2021			
	Estimated Income	Billed Income	Collected Income	Total Arrears as at 31 December	Estimated Income	Billed Income	Collected Income	Total Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates	28,674	267,357	26,867	28,195	28,742	27,993	19,181	29,620
Rent	216,636	21,064	20,059	3,197	111,505	14,428	13,641	2,440
License Fees	17,930	12,196	12,088	-	17,451	7,599	7,599	-
Other Income	44,814	123,022	295,935	14,008	36,783	114,466	94,768	15,816
<b>Total</b>	<b>308,054</b>	<b>423,639</b>	<b>354,949</b>	<b>45,400</b>	<b>194,481</b>	<b>164,486</b>	<b>135,189</b>	<b>47,876</b>

## 2.2.2 Performance in Revenue Collection

The observations regarding the revenue collection performance of the Council are as follows.

Audit Observation	Comments of the Council	Recommendation
<p><b>Rates and Taxes</b></p> <p>The rates valued at Rs. 15,768,510 for more than a year as at 31 December of the year under review had not been recovered.</p>	<p>It is informed to that the actions have been taken to recover the arrears of balances.</p>	<p>Actions should be taken in terms of to recover the outstanding balance as per the provisions of the Act.</p>

## 3. Operational Review

### 3.1 Performance of Functions Enacted by the Act

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 4 of the Urban Council Ordinance are as follows.

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<p><b>By-laws</b></p> <p>Although the By-laws could have been enacted on major tasks , under Section 157 of the Urban Council Ordinance, the Council had not enact By-laws for no matter whatsoever even by 31 December 2022 .</p>	<p>A By-law related to mobile trade has been drafted in the year 2022 .</p>	<p>Arrangements should be made to enact By-laws related to the Council.</p>

### **3.2 Delays in Execution of Projects.**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<p>Even though the relevant work should be completed within 540 days from 06 July 2020 as per the agreement entered into with the contractor regarding the construction of the new public market and multi-purpose building to be constructed by the Kuliapitiya Urban Council, its physical progress was 60 percent and financial progress was 48 percent as at 31 December 2022 .</p>	<p>The bad economic situation and financial crisis in the country have caused for this.</p>	<p>The tasks should be completed as planned.</p>

### **3.3 Management Inefficiencies**

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<b>(a)</b>	<p>The total amount of receivables related to 15 items as at 31 December of the year under review was Rs.45,495,973 and a sum of Rs. 4,123,716 out of that, was related to a period between 1 and 3 years.</p>	<p>Collecting of arrears is being carried out.</p>	<p>Arrangements should be made to recover the respective balances promptly.</p>
<b>(b)</b>	<p>The total amount of payables related to 19 items as at 31 December of the year under review was Rs. 185,607,950 and out of that, there were balances of Rs.4,977,779 older than 5 years and Rs.4,204,454 between 3 and 5 years .</p>	<p>Deposits in long-term leased properties cannot be released and arrangements are being made by now to release other identified deposits.</p>	<p>The relevant balances should be settled promptly.</p>

- (c) Although the balance of the general store account was Rs.43,298,299 as per financial statements as at 31 December 2022, the calculated storage account balance was Rs.14,799,988 as per the Annual Board of Survey Reports and accordingly, a difference of Rs. 28,498,311 was observed in the general store. No action whatsoever had been taken regarding the shortage in stock in the general store.
- This difference has occurred due to various shortcomings that have happened over a long period of time. Actions will be taken to be corrected after re-checking in the future.
- Optimum storage control should be maintained.

### 3.4 Human Resources Management

#### Employee Loans

Audit Observation	Comments of the Council	Recommendation
An irrecoverable employee loan balance totalling Rs.40,600 in respect of 5 employees had remained as at 31 December of the year under review.	Arrangements will be made to recover their debts from guarantors, after receiving retirement gratuity and after receiving death gratuity.	Arrears should be settled.

### 3.5 Assets Management

#### (a) Failure of Recording of Assets

Audit Observation	Comments of the Council	Recommendation
The fixed asset registers of the Council had not been maintained up to date and 12 vehicles valued Rs.12,758,900 included in the financial statement schedules had not been entered in the asset registers.	Actions will be taken to update asset registers properly.	Asset registers should be maintained in an updated manner.

**(b) Failure of Taking Over the Assets**

**Audit Observation**

Five cemeteries and five lands maintained by the Council had not been taken over as at 31 December of the year under review.

**Comments of the Council**

The relevant arrangements have been made for taking over.

**Recommendation**

Assets should be properly taken over..

**(c) Idle / Underutilized Assets**

**Audit Observation**

The Bobcat Machine belonging to the Council which was given to a private company in the year 2019 for repair activities, the repair had not been completed by the end of the year under review. Three vehicles and machinery assets belonging to the Council had remained in idle.

**Comments of the Council**

Even though the land master has been auctioned by disposal process, a buyer has not appeared . The Agrimate lawn mower is to be auctioned in the near future.

**Recommendation**

Actions should be taken to optimally utilize the assets of the Council.

**4. Accountability and Good Governance**

**Budgetary Control**

**Audit Observation**

The variance between budgeted revenue and actual revenue in 4 out of 7 revenue items had ranged from 26.6 to 149 per cent and 29 to 65 per cent of the budgeted allocation of 5 out of 09 items remained unspent during the year.

**Comments of the Council**

As the construction of the new multi-purpose building was not completed, the big difference between the estimated rental income and the actual rental income has caused to this.

**Recommendation**

Arrangements should be made to realistically prepare the Budget and utilize the allocations optimally.