

## **Kaduwela Municipal Council - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kaduwela Municipal Council for the year ended 31 December 2023 comprising the statement for assets and liabilities as at 31 December 2023 and statement of comprehensive income, statement of changes in net assets/ equity, cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other clarifications 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 section 219 of Municipal Councils Ordinance (Chapter 252) and the provisions of the National Audit Act No.19 of 2018. 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 Kaduwela Municipal Council as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for qualified Opinion**

My opinion is qualified based on 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 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 the Sri Lanka Public Sector Accounting Standards 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 municipal council's financial reporting process.

As per Section 16(1) of 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 to be prepared of the municipal council.

#### **1.4 Scope of Audit (Auditor's Responsibilities 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 judgement and maintain professional scepticism throughout the audit. I also

- Appropriate audit procedure 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 municipal council's internal control.
- Evaluate the 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.
- 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 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 discussions issued by the governing body of the company.
- Whether the municipal council has performed according to its powers, functions and duties and
- Whether the resources of the municipal 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 the other legal requirements

The special provisions had been inserted in the National Audit Act No.19 of 2018 in relation to the under-mentioned requirements.

- (a) The financial statements of the municipal council are consistent with the preceding year as per the requirement of the section 6(1)(d)(iii) of the National Audit act No. 19 of 2018.
- (b) The recommendations made by me in the preceding year as per the requirement indicated in the section 6(1)(d)(iv) of the National Audit act No. 19 of 2018 had been included in the financial statements forwarded.

## 1.6 Audit Observations in relation to preparation of the Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the council	Recommendation
(a) Even though the fixed deposit value was Rs.1,180,597,373 in the year under review, it had been indicated as Rs.1,160,000,000 in the financial statements.	Agreed.	The fixed deposits should be accurately accounted.
(b) Even though the fixed deposit interest income was Rs.102,509,015 in the year under review, it had been shown as Rs. 94,138,078 in the financial statements.	do	The fixed deposit interest income should be accurately accounted.
(c) Even though the receivable fixed deposit interest income was Rs..21,852,642,it had been indicated as Rs. 34,390,267 in the financial statements.	do	The receivable fixed deposit interest income should be accurately accounted.
(d) Due to inclusion of Rs. 52,417,977 which had prevailed since several years and cancelled and completed the work and made payments in the industry creditors account, the current liabilities had been overstated by same amount.	do	The action should be taken to accurately identify the industry creditors' balance.

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| (f) | Due to not accounting the buildings of Rs. 46,404,003 completed the work in 2021 and 2022 to the buildings account in the year under review, the buildings balance had been understated by same amount and the surplus of the year had been overstated by Rs. 1,160,100 owing to not calculation of depreciation. | do | The action should be taken to accurately identify the fixed assets and accordingly, the depreciation should be meticulously calculated. |
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## 1.7 Non-Compliance

### Non-compliance with laws, rules, regulations and management decisions

The incidents in which it had not been complied with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules and regulations	Non-compliance	Comments of the council	Recommendation
(a) Financial Regulations of Democratic Socialist Republic of Sri Lanka			
(i) F.R.396 (d)	The action had not been taken as per the regulations in relation to 12 cheques worth of Rs. 94,740 exceeded the period of 06 months issued but not presented for payment.	The letters had been sent for the cheques not settled after making aware the relevant payees.	The action should be taken as per Financial Regulations in relation to the cheques not presented for payments.
(ii) F. R. 1653	44 vehicles as 02 three wheelers, 37 tractors, 03 Tippers, lorry and single cab belonging to council had been driven with the milometer in inoperative condition.	The action will be taken to get repaired the vehicles with an inoperative milometer. Similarly, the metres of the tractors are repaired and since those are disposed to the severe sun rays and rain, frequently those metres become inoperative.	The action should be taken to repair the milometer.

<p><b>(b) Public Administration Circular</b></p> <p>(i) Paragraph 2(iv) of Circular No. 09/2009 dated 16 April 2009</p>	<p>An amount of Rs. 505,158 had been paid as holiday pay for 04 officers in executive level including Municipal Commissioner and 04 officers in staff grade without usage of the finger print machine.</p>	<p>The finger print machine is not used for marking the daily arrival and departure to office since the Municipal Commissioner has to cover the duties in the waste yard, Premix institute and 03 District Offices and participates to the public service activities frequently and he has to promptly perform those activities through direct intervention.</p>	<p>The reporting to the service of all public officers should be carried out as per revenant circular.</p>
<p>(ii) paragraph 3.1 of Circular No.30/2016 dated 29 December 2016</p>	<p>Even though the technicians of the council had certified that the fuel consumption tests with regard to 117 vehicles and machineries belonging to council had been carried out in relevant period of time, it had not verified in the audit that such tests had been carried out.</p>	<p>The fuel consumption tests had been carried out for the vehicles belonging to Kaduwela Municipal Council in 2023 and the actions are being taken to perform a vehicle emission tests in 2024.</p>	<p>It should be carried out as per the fuel consumption test circular.</p>
<p><b>(c) Treasury Circulars No. 02/2017 dated 21 December 2017</b></p>	<p>No action had been taken by council so far to register wheel loader, excavator and motor grader in the name of the council.</p>	<p>Since the land vehicles had been kept in only industry area, the action had not been taken to register these 03 vehicles. In obtaining to the council, Goods Received Note (GRN) and issuance order had been issued.</p>	<p>It should be expeditiously carried out the registration in the name of council.</p>

## **2. Financial Review**

### **2.1 Financial Results**

In accordance with the financial statements submitted, the income exceeding the expenditure of the council was Rs. 62,486,268 for the year ended 31 December 2023 and correspondingly, the income exceeding the expenditure was Rs.243, 511,413 in the preceding year.

## 2.2 Income administration

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

As per the information submitted by the Municipal Commissioner, the information on estimated income, billed income, collected income and outstanding income is as follows.

Income source	2023				2022			
	Estimated income Rs..000	Billed Income Rs.000	Collected Income Rs. .000	Outstanding as at 31 December Rs..000	Estimated Income Rs..000	Billed Income Rs. .000	Collected Income Rs.000	Outstanding as at 31 December Rs. 000
Assessment Tax and Other Tax	189,810	210,079	172,380	37,700	182,500	196,309	156,376	39,933
Rents	9,924	9,557	11,098	-	12,622	10,059	7,960	2,099
Licenses Fees	10,335	10,335	11,504	-	10,671	10,671	10,545	125
Other Income	14,843	14,843	14,604	239	13,240	13,240	11,542	1,698
	<u>224,912</u>	<u>244,814</u>	<u>209,586</u>	<u>37,939</u>	<u>219,033</u>	<u>230,279</u>	<u>186,423</u>	<u>43,855</u>

### 2.2.2 Income Collection Performance

The observations on the income collection performance are as follows.

Audit Observation	Comments of the council	Recommendation
(a) Assessment Tax and Other Tax		
(i) The recoverable Assessment Tax balance was Rs. 89,425,049 prevailed since several years as at 31 December 2023.	Even though outstanding Assessment Tax balance was Rs. 89,425,049 as at 31 December 2023, an amount of Rs. 17,413,624 had been received from January to April 2024. The income which should be further recovered from the outstanding is Rs. 72,011,425.	The action should be taken to recover outstanding amount.

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| (ii) The receivable entertainment tax income was Rs. 3,080,840 prevailed since several years as at 31 December 2023.   | The outstanding entertainment tax is Rs. 2,404,976. This outstanding amount should be paid by a cinema and since a case had been filed for Rs. 2,368,922 at Kaduwela District Court, the action will be taken to recover that amount. | The steps should be taken to recover the outstanding balance.          |
| (b) As at the closing date of the year under review, no action had been taken by council to recover outstanding rent income of Rs. 14,877,403 as per the agreement.                    | The action had been taken to seal the shops on which there is outstanding rent and if it is failed to pay the outstanding amount, the legal action will be taken.   | The relevant steps should be taken to recover the outstanding balance. |
| (c) The court fines of Rs. 37,262,123 and Stamp Duty of Rs. 652,848,723 had to be received from the Chief Secretary and other officers of the pradeshiya sabha as at 31 December 2023. | The stamp duty relevant to 2023 is being written down presently.  | The action should be taken to accurately identify the fees.            |

### 3. Operating Review

#### 3.1 Discharging the Functions entrusted by the Act

Audit Observation	Comments of the council	Recommendation
(a) Even though the by-laws could have been enforced for fulfilling 02 key facts under section 272 Municipal Councils Ordinance, no by-laws had been enforced by council even up to 31 December 2023.	Having made the amendments to the by-law related to Kaduwela bus stand and by-law related to the playgrounds, those had been submitted for approval again.	The taction should be immediately taken to pass the by-laws.
(b) Owing to not working JCB belonging to council utilized for the operating activities of Ranpallassa waste management centre, the service had been taken from a JCB obtained from a private company on 05 September 2022 on rent basis for 6400 per hour. Even though the machine had been repaired at an amount of Rs. 4,951,834 and handed over to council on 27 March 2023, an amount of Rs. 5,750,400 had been paid to the machine owner by council for the	When the machine was handed over to the council after repairs, it had been transferred to Battaramulla District office on the request of the machine operator and since the training had to be given to the newly recruited driver and it is necessary to continuously maintain the process of the centre, the payments will be made for the machine obtained on rent basis up to 22.08.2023.	After repairing the machine, it should be put in service.

above-mentioned period by further utilizing the machine obtained on rent basis up to 22 August 2023.

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| (c) In accordance with the document for purchase and sale of materials and balancing of recycle centre, the purchases which had not been converted into sales including losses, goods inwards and omission of opening balances was Rs.2,114,415 and since the continuous deficit occurred is directly effect to the income of the center, the steps had not been taken to report on that or minimize it.                                | CCTV system fixed at the materials storage centre for prevention of material shortages segregated at recycle sales centre had been renovated and maintained in an update manner.    | The formal action should be taken to minimize the losses as well as the documents should be accurately maintained in an update manner. |
| (d) Even though, it shall not dispose, deposit or emit the waste which pollutes the environment except under a license issued by the Authority in terms of sections 23 (a) and (b) of Establishment of Central Environmental Authority Act No.47 of 1980, recyclable materials had been sold to 07 institutions and persons not registered in Central Environmental Authority or Western Province Solid Waste Authority by the council. | It is due to be entered into agreements with several institutions for handing over electric waste, polythene packaging materials and king coconut waste enabling to earn an income. | The action should be taken to select the institutions with licenses in disposal of waste.  |
| (e) Even though an amount of Rs.1,420,620 had earned from sale of white glass 91,300 kg and various coloured glass 4,260 kg to glass manufacturing company by council in the year under review, no action had been taken to credit it to the council's fund. As per the information obtained, an income of Rs.1, 002,425 from sale of glass pieces which had not credited to the council's fund had existed for the period of review.   | The action will be taken to report the relevant progress in due course.   | The action should be taken to perform the transaction in transparent manner.   |



### 3.2 Uneconomic Transactions

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
An amount of Rs. 3,253,840 had been paid to the contractor by making a concrete slab on a metal surface on iron bars in a premises of 1300 square feet in 2019 for establishment of the Administration Division of Athurigiriya District Office in the megacity building and the retention money of that contract had been released on 26 December 2019. However, since the construction activities had not been implemented even up to the year under review, the money paid for the above construction had been idle.	It had been decided to shift the complete Administration Division to this building and the relevant project had been stopped due to submission of the quotations exceeding the estimated amount by tenderers in calling tenders for increase the floor area of upper floor and unfavourable economic condition.	It should be responsible to plan the construction projects as per the estimated provision.

### 3.3 Identified Losses

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
There was a shortage of 18 w 100 LED blubs worth of Rs. 247,500 at the inspection of the stores books related to issue of blubs for street lamp posts as at 18 July 2023 of Kaduwela District Office and the physical stock existed in the stores on that date.	It had been informed to Local Government Commissioner to carry out an inspection on this matter.	The stores books should be updated and a responsible person should frequently monitor.

### 3.4 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) Owing to non-availability of the license for the information system prepared in 2015 by paying an amount of Rs. 3,560,000 to the Urban Development Authority by including the geographical information located in the area of municipal council, software with the license had been purchased to update it for an amount of Rs. 2,395,000 in 2021. Even though its agreement period was due to be terminated in February 2024, the progress of mapping the data	The system should be frequently updated and that task couldn't be completed within specific timeframe. The all physical changes happened in the future should be mapped at that incidents itself. The progress had got stuck due to the issues in obtaining the information in the field related to street lamps and common amenities.	The action should be taken to achieve the expected objectives having entered the data and updated the system.

was in low level as buildings 50 percent, street lamps 15 percent and common amenities 10 percent. Accordingly, even though more than 10 years had elapsed from the commencement of implementation of information system by incurring Rs. 5,955,000, the expected objectives had not been achieved.

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| (b) It had not been shown the accurate balance from work in progress account owing to identification of the relevant estimated amount as work in progress in the calculation of work in progress balance by council. | Agreed. | The action should be taken to accurately identify the work in progress. |
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### 3.5 Operating Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) An income of Rs. 2,946,150 had lost to the council as at 31 December 2023 owing to taking over 13 shops out of 38 again constructed by the council's fund in Kaduwela bus stand premises and closure due to non-submission of tenders. Similarly, another 04 shops had been sealed in 2015, 2016 and 2017 and an income had not been generated from shops on inability of leasing again even up to the date of audit.	Since it had been decided to amend the structure enabling to use for another task, it had been submitted to the Municipal Engineer for taking relevant future action and the action will be taken to lease again having recalled the tenders after the completion the development activities.	The action should be taken to generate the shop rent having leased the shops closed.
(b) Even though 05 years had elapsed as at 31 December 2023 after taking over 04 shops located in Kaduwela bus stand for a development activity on 01 January 2019, the relevant devilmnt activities had not been completed and leased again.	do	do
(c) Since the tenderers had not presented from the beginning of July 2013 for 06 shops belonging to Kaduwela District Office, the receivable rent income had lost from that since about 10 years.	do	do

### 3.6 Assets Management

Audit Observation	Comments of the council	Recommendation
(a) 02 machines out of 06 purchased by incurring Rs. 66,612,047 in 2017 with an objective of developing the roads by laying the carpets established a premix division by council had been used for premix division commenced in 2018 owing to non-implementation of the project and 04 remaining machines worth of Rs. 58,214,750 had been kept in idle in the premises of Athurigiriya Office more than 06 years since 13 August 2017.	The necessary action will be taken in joining with the institutes which import such machines for sale of remaining 04 machines.	The purchases should be carried out as per a formal procurement plan.
(b) Even though 07 years had elapsed from inactive the electric lift in 2016 and established in November 2013 by incurring Rs. 3,900,000 for access to the shops in the upper floor of Kaduwela bus stand premises, it had not been renovated. As per the council's decision dated 09 December 2021, this is not effective for the bus stand and though it had been recommended to be located in the head office suitably, it had been kept as an inactive asset in the bus stand even up to the date of audit.	It is intended to take further action having inspected the iron and other parts of this electric lift and assessed the value.	The procurement plans should be prepared having identified the necessity.
(c) Even though 04 months had elapsed in 2024 for the removal of running of 08 tractors, gully bowser, bobcat machine and a three-wheeler in accordance with the recommendations of the board of survey in 2023, the preliminary activities for disposal had not been carried out by the council.	In the future, the necessary action will be taken.	The action should be taken to expeditiously the disposal activities.

#### 4. Accountability and Good Governance

##### 4.1 Annual Action Plan

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) Even though it had been proposed 32 activities to be carried out for implementation of 05 targets expected to be fulfilled within the year under review under Kaduwela Free Ayurveda Medical Centre, no action had been taken to implement 12 activities out of that.	The action will be taken to fulfil the all targets which had not been completed and indicated in the action plan in 2024.	The action should be taken to fulfil the targets mentioned in the action plan.
(b) No action had been taken to maintain the animal selling places in compliance with the standard indicated under veterinary office and implement the project named “we for Animals”	The sterilization surgeries had been performed in 04 occasions to the pet animals in 2024.	The action should be taken to fulfil the targets within the specified period of time.
(c) The progress of 08 activities out of 21 proposed to be fulfilled under Municipal Engineering Department was less than 55 percent.	The all activities will be fulfilled having paid attention in 2024.	The action should be taken to fulfil the targets within the stipulated period of time.