

1.1 Qualified Opinion

The audit of the financial statements of the Kesbewa Urban Council including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of changes in equity / net assets, Cash Flow Statement 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 Section 181(1) of the Urban Councils Ordinance (Chapter 255) and 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 Kesbewa Urban Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on 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 Government Institutes, 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 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 all 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 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

Audit Observation	Comment of the Council	Recommendation
According to Chapter No. 3.29 of the standard, the purchase of property, plant and equipment under investment activities should have been shown as Rs.41,559,191, but it has been shown as Rs.59,044,091.	That the correct value of property, plant and equipment purchases is Rs.57,837,591.	Cash flow statement should be prepared as per standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
Non-furniture items valued at Rs.5,560,527 were accounted under furniture.	That the correct item will be identified and accounted for.	That the correct item should be identified and accounted for.

1.7 Non-Compliances

Non-Compliances with Laws, Rules, Regulations and Management Decisions.

Reference to the Laws, Rules, Regulations	Non-compliance	Comment of the Council	Recommendation
Paragraph 31 of Public Administration Circular No. 2016/30 dated 29 December 2016	The fuel consumption test of 26 vehicles owned by the council was not done.	That the fuel test has been completed and the reports will be submitted for audit after checking.	Action should be taken as per circular.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2023 amounted to Rs.564,836,406 as compare with the excess of revenue over expenditure amounted to Rs.175,382,222 in the preceding year.

2.2 Revenue Administration

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

According to the information given by the Urban Commissioner 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	2023				2022			
	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)
Rates and Taxes	84,000,000	90,943,319	50,671,439	33,328,561	84,000,000	84,000,000	50,162,444	33,834,556
Rent	32,340,000	29,898,000	28,236,964	3,517,241	15,500,000	12,656,200	13,699,622	1,239,839
License Fee	1,550,000	1,625,400	1,625,400	-	1,500,000	1,488,000	1,488,000	-
Other revenue	260,000,000	378,626,527	378,656,527	-	290,000,000	315,000,000	315,000,000	-
Total	<u>377,890,000</u>	<u>501,093,246</u>	<u>459,190,330</u>	<u>36,845,802</u>	<u>391,000,000</u>	<u>413,144,200</u>	<u>380,350,066</u>	<u>35,074,395</u>

2.2.2 Performance in Revenue Collection

	Audit Observation	Comment of the Council	Recommendation
(a)	As the Council has not proceeded to collect the rates and taxes in terms of Section 170 of the Urban Council Ordinance, According to the financial statements, the outstanding rates and taxes balance as of 31 December 2023 has been Rs.64,976,468 and the outstanding balance due from 62 assessment units exceeding Rs.50,000 amounted to Rs.6,777,382.	As on 01.01.2024, the outstanding balance to be collected from 62 assessment units exceeding Rs.50,000/- amounted to Rs.6,771,382 and as on 01.04.2024, a sum of Rs.808,631.61 has been collected from 05 properties in instalments and in full.	Actions should be taken to recover the arrears.

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| (b) | Although the billed rates and taxes income as per the financial statements for the year under review was Rs.84,000,000, the council had failed to collect Rs.28,041,060 or 33.38 per cent of the billed rates and taxes income. | That the holding of mobile services and prohibiting of properties in the year 2023 had been done for recovery of this rates and taxes. | Actions should be taken to recover current year income. |
| (c) | According to the financial statements, out of the outstanding rates and taxes balance of Rs.68,572,810 as at 01 January 2023, a sum of Rs.26,686,685 or 39 per cent had been recovered during the year under review and Rs.41,886,125 or 61 per cent had failed to be recovered. | That the holding of mobile services and prohibiting of properties in the year 2023 had been done for recovery of this rates and taxes. | -Do -. |
| (d) | Entertainment tax of Rs.281,047 had not been recovered. | Not Commented | Actions should be taken to recover the arrears. |
| (e) | Although rates and taxes should be assessed once every five years, the council last assessed them in 2012/2013, and based on those years, the rates and taxes had been levied in the year under review. | Requests have been made to the Valuation Department for assessment from the year 2021 and budget allocations have also been allocated, but no action has been taken so far and the assessment will be done within this year. | Rates and taxes should be assessed. |
| (f) | Out of the arrears amount of Rs.1,208,759 as of 01 January 2023, a sum of Rs.1,156,259 or 22 per cent of garbage disposal had not been collected In the year 2023. Accordingly, the total garbage tax value to be collected on 31 December 2023 amounted to Rs.2,542,643. | That the total value of garbage tax to be collected as at 31.12.2023 amounted to Rs.2,542,135. | Arrangements should be made to recover the outstanding garbage tax. |
| (g) | The council had failed to collect Rs.1,676,690 out of the revenue of Rs.29,898,000 billed for the year 2023 for long-term leased shops. | That steps are being taken to recover the arrears. | Arrangements should be made to recover the outstanding rent balance. |
| (h) | The outstanding rent balance of Rs.532,800 in 10 properties with more than 10 installments had not been recovered. | That the rest of the money will also be recovered. | Arrangements should be made to recover the outstanding property income. |

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| (i) | The arrears of rent from the fish shop, which was Rs.593,065 from 2001 and Rs.446,600 from 2009 to 2017, had not been recovered by 31 December 2023. | The Local Government Commissioner has been informed and will report to the audit as per the instructions received. | Arrangements should be made to recover the outstanding rent balance. |
| (j) | The arrear rent income due from 122 shops as at 31 December of the year under review had been Rs.2,861,841, which consisted of 04 lessees with more than Rs.100,000 and 09 lessees with more than Rs.50,000. | That the rest of the money will also be recovered. | Arrangements should be made to recover the rent arrears. |
| (k) | The total arrears as at 01 January 2023, related to the parking property leased by tender had been Rs.440,882, the public toilet outstanding balance had been Rs.45,790 and the arrears for the canteen had been Rs.265,000, but only Rs.499,622 has been recovered during the year under review. | Requests have been made to the Local Government Commissioner for approval to write off the arrears of Rs.206,260 and further action is being done to collect the remaining money from the public toilets. | Arrangements should be made to recover the arrears income. |
| (l) | Action had not been taken to recover arrears stamp duty of Rs191,823 continuing from the year 2017. | It is related to the 2017 outstanding balance and although the schedules were prepared and handed over to the Provincial Revenue Department, they had told that they did not have the information related to 2017, and had been returned back. | Arrangements should be made to recover the arrears income. |
| (m) | 08 of the 41 registered transmission towers had not been assessed, and the council had not been able to recover an income of Rs.1,451,008 from 21 towers with assessed values. | The relevant agencies have been informed to send copies of the building plan to assess the unassessed towers, and further steps are being taken to collect the money due from the towers. | Arrangements should be made to recover the arrears assessed income from towers. |

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The council was unable to cover the advance amount of Rs.169,203 due from a private institution since 2007.	That the remaining advance amount of Rs.169,203 has not been settled due to non-completion of the contract work.	Arrangements should be made to collect the receivables promptly.

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| (b) | Although it has been informed by the letter No.LGD/10A/4/N.Gi/2019 of the Assistant Commissioner of Local Government dated 01 February 2021, that all fixed assets of the institutions should be revalued and accounted for when submitting the financial statements for the year 2020 according to the instructions of the Asset Management Circular No.4/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media, The Urban Council had not revalued the assets other than land, buildings and vehicles in the year 2023. | As per the instructions received in the circular and the letter of the Assistant Commissioner of Local Government, it is informed that the revaluation has been done and accounted for the land, buildings and vehicles owned by the institution during the submission of financial statements from the year 2020, and that the revaluation is being done for other fixed assets owned by the council. | All fixed assets should be revalued. |
| (c) | Mileometers of 05 vehicles belonging to the council had been inactive and the fuel combustion test was not done properly. | That the fuel test will be done and submitted for audit immediately after the repair work is completed. | Fuel combustion test should be done. |
| (d) | The Provincial Council's creditor balance of Rs.6,030,286 as at 31 December 2023, included a balance of Rs.1,020 for the year 2019 and a balance of Rs.3,029,266 for the year 2021, but action had not been taken to settle those balances. | The balance of Rs.1020/- mentioned in the Provincial Council's creditor balance for the year 2019 is over allocation of a project paid in the year 2023. It will be write off in future. Out of the balance of Rs.3,29,266/- indicated for the year 2021, money for 8 rural road projects has not yet been received from the Ministry of Rural Roads, and since money has been received for 6 projects in the year 2024, it is to be paid in the future. | Arrangements should be made to settle the outstanding loan balances. |
| (e) | The credit balance of Rs.3,007,011 due for 16 projects from 2020 to 2021, included in the industrial creditor balance, had not been settled. | That the creditor balances related to the 16 projects will be settled in the future. | Arrangements should be made to settle the outstanding loan balances. |
| (f) | The tender deposits of Rs. 2,428,683 related from the year 2017 to 2022 had not been settled. | That the tender deposit will be settled in the future. | Arrangements should be made to settle the outstanding loan balances. |

3.2 Idle/ Under Utilized Assets

02 vehicles of the council had been idle and the fibre boat had lying unused at the Madapata landfill as at 31 December 2023.	Quotations have been called for repairs to the motor grader and compactor and the fiber boat will be used in an emergency.	Arrangements should be made to use vehicles and machinery.
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3.3 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
Although the employee loan balance due on 31 December 2023 is Rs.1,866,135, in that balance, the outstanding balance from 03 officers for more than 05 years was Rs.299,906 and the outstanding balance from 04 officers for more than 10 years was Rs.169,495.	That the outstanding balance of 03 officers for more than 05 years is Rs.299,906.00.	Arrangements should be made to recover outstanding loan balances.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Council	Recommendation
Even though the provision of Rs.309,269,600 was allocated for non-recurring expenses from the 2023 budget of Kasbewa Urban Council, the actual expenses incurred were Rs.119,664,673.	Due to the further implementation of all necessary measures to reduce all expenses of the council according to the expenditure control circular 3/2022 of the year 2023, the actual recurring expenditure incurred in the year 2023 has been minimized.	Budgeting should be used as a control tool.