

Kolonnawa Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kolonnawa Urban Council for the year ended 31 December 2023 comprising the statement of assets and liabilities as at 31 December 2023, the comprehensive income statement, cash flow statement for the year then ended and notes to the financial statements including material accounting policy information 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 in the National Audit Act No. 19 of 2018, sub-section 181(1) of the Urban Councils 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 Kolonnawa Urban Council as at 31 December 2023, 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 following 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 Non-Compliance with Sri Lanka Accounting Standards

	Audit observations	Comments of the Council	Recommendation
(a)	Even though the purchase of property, plant and equipment (including work in progress) is Rs.98,629,078 in terms of the standard No. 3.29, it had been overstated by Rs.11,562,768 as Rs.110,191,846 in the cash flow statement .	Agreed. It will be accounted for in due course.	Measures should be taken to properly account for.
(b)	The amount of Rs.15,700 received from the sale of assets during the year under review had not been adjusted under investment activities in terms of the standard No. 3.29, a loss on disposal of assets amounting to Rs.552,982 had not been shown under adjustments in the statement of cash flows.	-do-	-do-
(c)	Even though the depreciation for the year was Rs.53, 303, 651, it had been under-adjusted by Rs.31,385 to the cash flow statement as Rs.53,272,266 in terms of the standard No. 3.32.	-do-	-do-
(d)	Investment income amounting to Rs.23,443,578 had not been adjusted in the cash flow statement in terms of the standard No. 3.29.	Agreed. It will be accounted for in due course.	Measures should be taken to properly account for.

1.6.2 Accounting Deficiencies

	Audit observations	Comments of the Council	Recommendation
(a)	An amount of Rs.64,530,340 which should be accounted for under work in progress had been debited to the building account.	Measures had been taken to correct through 2024/JE/2	Measures should be taken to properly account for

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| (b) | An amount of Rs.162,166 to be debited to the machines account had been debited to the container and equipment account. | Measures had been taken to correct through 2024/JE/3 | -do- |
| (c) | The depreciation expense amounting to Rs.319,691 related to the year under review had been under-accounted for. | Agreed | -do- |
| (d) | Meat shop rental receipts amounting to Rs.1,653,175 ,which had not been accounted as receivables for the year 2022 had been credited to the deposit account instead of being credited to the accumulated fund. | Not answered. | -do- |
| (e) | The value of 03 creditors had been understated by Rs. 419,815 and the value of 04 creditors had been over stated by Rs. 54,665 When accounting for creditors in the financial statements, and the value of 06 creditor balances amounting to Rs.2,065,714 as at 31 December 2023 had not been stated. | -do- | -do- |

1.6.2 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Evidence not available	Comments of the Council	Recommendation
Unidentified balances	40,932,285	Approval and detailed schedule for unidentified balances	That it will be settled and presented promptly.	Relevant approvals and detailed schedules should be submitted.

1.7 Non-compliances

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 20 of the Rating and Valuation Ordinance No. 30 of 1946	Even though it should be assessed once in 05 years, it had not been done.	The new rating assessment has been implemented since the year 2024.	The provisions of the Act should be followed.

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| (b) | Section 3.1 of Public Administration Circular No. 30/2016 and dated 29 December 2016 | Fuel combustion of 28 vehicles belong to the council had not been tested. | Agreed.
It will be tested for in due course. | Circular provisions should be followed. |
| (c) | Public Administration Circular No. 26/92 and dated 19 August 1992 and No. 01/2002 and dated 25 February 2002 | The state emblem and the name of the institution had not been mentioned on the vehicle body of the 07 vehicles belonging to the council. | Agreed.
Measures will be taken to mention the state emblem and the name of the institution on vehicles of which those are not mentioned on the body of the vehicles. | Circular provisions should be followed. |

1.7.2 Non-compliance with tax requirement

Audit observations	Comments of the Management	Recommendation
Rs. 1,278,234 had been shown as unrecognized balance as the balance of tax on value added tax payable.	Further work will be done regarding the VAT balance of Rs.1,278,234 in consultation with the commissioner of inland revenue.	The instructions of the Commissioner General of Inland Revenue should be followed.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over expenditure of the Council for the year ended 31 December of the year under review was Rs. 34,263,400 as compared with the corresponding revenue over expenditure of Rs. 71,698,962 of the preceding year.

2.2 Control of Revenue

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

According to the information presented by the Secretary, the details 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	Billed Revenue	Collected Revenue	Accumulated Arrears as at 31 Dec.	Estimated Revenue	Billed Revenue	Collected Revenue	Accumulated Arrears as at 31 Dec.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs..	Rs.
(i) Rates and Taxes	100,000,000	92,623,581	86,617,771	79,421,106	93,000,000	93,136,471	80,591,014	75,122,890
(ii) Rental	11,252,616	11,444,682	10,435,416	10,092,266	12,117,142	12,117,142	9,783,082	2,334,060
(iii) License Fees	600,000	721,000	721,000	-	601,000	601,000	601,000	-
(iv) Other Revenue	6,521,028	5,659,527	5,659,527	-	6,485,000	7,095,252	7,095,252	-
Total	<u>118,373,644</u>	<u>110,448,790</u>	<u>103,433,714</u>	<u>89,513,372</u>	<u>112,203,142</u>	<u>112,949,865</u>	<u>98,070,348</u>	<u>77,456,950</u>

2.2.2 Performance of Collection of Revenue

Audit observations	Comments of the Management	Recommendation
(a) The outstanding rates and tax value as at the last day of the year under review was Rs. 79,421,106 ,and out of that, the amount that should have been collected from 45 rate arrears with an outstanding value of over Rs.40,000 was Rs.24,668,316.	Measures have been taken to recover Rs.5,122,946 out of arrears of assessment above Rs.40,000/- amounting to Rs.24,668,316 ,and that the rest of the arrears will also be collected from May 2024 through implementation of property ban programs.	Actions should be taken to recover the arrears of income.
(b) The balance due from 187 shops belonging to the council was Rs.7,016,695.	The reason for this outstanding amount is that 02 building complexes have been proposed to be demolished due to the Orugudawatta Ambatale road widening project. This outstanding amount is planned to be collected and provided in the provision of new outlets.	-do-

- (c) The stamp duty due from the Chief Secretary and other officials of the Provincial Council as at 31 December 2023 was Rs.120,000,000. An amount of Rs.120,000,000 estimated for the year 2022 is the income from stamp duty. An amount of Rs.6,781,796.00 had been received by now in this year (2024). Arrangements should be made to recover the stamp duty due.

3. Operating Review

3.1 Operational Inefficiencies

Audit observations	Comments of the Council	Recommendation
(a) There were no title deeds for 21 lands with revaluation amount of Rs.3,706,300,000 used by the council.	This is because 5 properties among the 39 properties owned by the urban council have title certificates and dimensional plans. Dimensional plans and title certificates are not available for 31 properties and that all the properties enjoyed by this Council have been sent to the Divisional Secretary with the recommendations of the Commissioner of Local Government to transfer them to the Urban Council.	Arrangements should be made to expropriate the land.
(b) The odometer of 06 vehicles owned by the council had been off for 5 to 15 years.	Agreed. That all the mile meters which are currently inactive will be repaired.	Mileometers needs to be repaired.

3.2 Underutilization of Funds

Audit observations	Comments of the Council	Recommendation
Rs.15,972,880 out of the allocation amounting to Rs.30,350,000 estimated for 11 development activities in the year of transformation had not been utilized by even the end of the year under review.	Essential maintenance costs had been incurred due to the issuance of circulars to control expenses in the context of the economic crisis and inflation prevailed in the country, and some development projects had to be suspended and the provision was left.	Budget document should be used as an effective instrument of revenue control.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit observations	Comments of the Council	Recommendation
A JCB backhoe, 02 tractors and a wheel loader belonging to the council remained inactive for more than a year.	Agreed. It had been referred to the Provincial Road Development Authority- Western Province (Gampaha) for the related repair works as the estimate given by the agency for repairing the engine of the JCB machine is very high.	The machine should be repaired immediately.

4. Accountability and Good Governance Internal Audit

Audit observations	Comments of the Council	Recommendation
No adequate internal audit had been conducted regarding the council's constructions, industrial common facilities and lands and buildings for the year 2023.	No answers had been given.	Audit should be done as per internal audit plan and internal audit should be strengthened.