

Kuliyapitiya Urban Council – 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kuliyapitiya Urban Council for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, 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 (1) of Urban Councils Ordinance (Chapter 255) and the Provisions of the Sub-section 11 (1) of 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 Kuliyapitiya Urban Council as at 31 December 2023, 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 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 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 Urban 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

	Audit Observation	Comments of the Council	Recommendation
(a)	The value of 04 furniture and equipment purchased during the year under review was Rs.348,550 and the value of 07 machines and equipment which was Rs.453,550 had not been accounted for as at December 31 of the year under review and the furniture and equipment which was disposed of as at 31 December 2021, as per the decisions of the Board of Survey, 12 equipment valued at Rs.163,543 had not been removed from the assets account.	Accept.	It should be accurately accounted for.
(b)	Although the bid security deposit balance was Rs 971,675 as per the deposit registers, it had been overstated by Rs 430,955 as Rs 1,402,630 in the financial statements.	-do-	It should be accurately accounted for.

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| (c) | There was a pending litigation as at 31 December 31 of the year under review and disclosures had not been made in the financial statements in this regard. | -do- | Contingent liabilities should be disclosed in the financial statements. |
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1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.13,036,162 between the balance of the project creditor account as at 31 December of the year under review and the balance in the relevant schedules.	Agree with the observation.	The differences should be identified and corrected.

1.7 Non-compliance

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

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

Reference to Laws, Rules, Regulations, Management Decisions etc.	Non-compliance	Comments of the Secretary	Recommendation		
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Financial Regulations 570 and 571	Actions had not been taken as per the Financial Regulation in respect of 514 lapsed deposits with a value of Rs 8,691,018 .	Accept.	Actions should be taken in terms of Financial Regulations.
(b)	Public Administration Circular Letter No. 01/2002 dated 25 February 2002.	The Government Emblem had not been painted on the body of vehicles owned by the Council.	Accept.	Actions should be taken in terms of the Circular.	

**(c) Local Government
Circulars**

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| (i) | Circular No. 2018/elocal government 01 and dated 19/07/2018 | Citizens had not been provided with facilities to submit applications and make payments online. | -do- | -do- |
| (ii) | Section 1.2. ii. Of Circular No. 2010/02 and 2010/07/30 dated | A subject al transfer system should be implemented while serving for duties and although a division transfer system once in 02 years should be implemented for officers who find it difficult to do so, it had not been so done. | -do- | -do- |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure exceeding the revenue of the Council for the year ended 31 December 2023 was Rs. 39,671,397 and the revenue that exceeded the recurrent expenditure of the preceding year as against to that was Rs. 179,885,209

2.2 Revenue Administration

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

According to the details submitted by the Secretary on the estimated income, billed income, collected income and arrears of revenue pertaining to the year under review and the previous year are presented as follows.

Source of Revenue	Year 2023				Year 2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	28,675	28,288	25,737	28,860	28,675	26,736	26,867	28,196
Rent	216,636	25,075	24,524	3,609	216,636	21,065	20,060	3,197
License Fees	17,930	21,087	3,907	-	17,930	12,197	12,089	-
Other Income	210,903	138,079	154,288	13,270	44,815	123,022	295,935	14,009
Total	474,144	212,529	208,456	45,739	308,056	183,020	354,951	45,402

2.2.2 Performance of Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	The arrears of rates as at 31 December of the year under review was Rs 28,860,313 .	Agree with the observation.	The arrears should be promptly recovered.
(b)	The arrears of rest house rent ,from January 2020 was Rs 2,062,413 as at 31 December 2023 .	Agree with the observation.	Actions should taken to recover arrears of rest house rent.
(c)	The arrears of rent balance of municipal buildings as at 31 December of the year under review was Rs.244,500 .	-do-	Actions should be taken to recover outstanding municipal building rent balance.
(d)	Even though the shop rent of the new mall for the year under review had been estimated at Rs.195,248,200, the recovery during the year was nil.	-do-	The estimate should be as realistic as possible.

- (e) The stamp duty receivable as at 31 December 2023 from the Secretary of the Municipal Council and other authorities in respect of the year under review was Rs.1,855,675 . Agree with the observation. Actions should be taken to recover receivables.

3. Operational Review

3.1 Performing of Functions Enacted by the Act

	Audit Observation	Comments of the Council	Recommendation
(a)	Although by-laws could have been enacted to carry out the main matters under Section 157 of the Municipal Ordinance, the Council had enacted by-laws only in respect of 04 matters by 31 December 2023 .	Agree with the observation.	Actions should be taken in terms of Section 126 Act.
(b)	An expenditure of Rs 1,278,263 had been incurred for Solid Waste Management. As compared to the previous year, compost production had decreased by 3,810 kg.	Agree with the observation.	Actions should be taken to manage biodegradable and non-biodegradable waste properly and to develop income generation activities.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The value of 12 accounts receivable as at 31 December of the year under review was Rs.49,711,408 .	Agree with the observation.	The balances receivable should be collected promptly.
(b)	The total value of 05 accounts payable balances as at 31 December of the year under review was Rs.837,768,595.	-do-	The balances to be paid should be settled.

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| (c) | Even if the case had been filed due to the person who took the lease of the Public Market No. 02 Shop in the year 2018 owned by the Municipal Council had defaulted the payment of lease rent of Rs.1,084,482, although the proceedings had stopped as a result of having left the residence at the address given to the Council, The Council had not taken the necessary steps to take the related legal proceedings. | Agree with the observation. | Actions should be taken to settle. |
| (d) | Seventeen projects with an estimated cost of Rs.10,425,000 had not completed the works of the year under review. | Agree with the observation. | Actions should be taken to minimize time delays in project execution. |

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Information about furniture and equipment had not been maintained in the Register of Fixed Assets.	Agree with the observation.	Fixed asset registers should be maintained up to date.
(b) The ownership of 07 lands maintained by the Council had not been taken over.	Agree with the observation.	Ownership of the assets should be taken over.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
There were 72 vacancies in the approved staff and 01 excess staff of the Council.	Agree with the observation.	The staff should review the need periodically.

3.5 Vehicle Systems Management

	Audit Observation	Comments of the Council	Recommendation
(a)	There were 06 unregistered vehicles of the Council as at 31 December of the year under review.	Agree with the observation.	Vehicles should be registered.
(b)	A tractor, a tailor and a lawnmower which were recommended for disposal had not been disposed of even by 31 December of the year under review.	Agree with the observation.	Assets which should be disposed should be disposed.
(c)	Four vehicles and machinery owned by the Council had remained idle for a period between 1 and 5 years.	-do-	Actions should be taken to utilize idle assets.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Council	Recommendation
Although the Internal Audit Unit of the Council had been established and an officer had been appointed for its duties a proper and adequate audit covering all the affairs of the Sabha was had not been done during the year under review.	Agree with the observation.	It should conduct an internal audit covering all areas and submit reports.

4.2 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
There was a variance of 25 to 774 per cent between estimated and actual income in 05 revenue items and more than 40 per cent in 07 expenditure items.	Agree with the observation.	The Budget should be prepared making a forecast regarding income and expenditure at the beginning of the year.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
Twenty three development programmes that had been planned with an allocation of Rs.1,017,715,000 to achieve sustainable development goals and targets had been completely abandoned and the financial progress of the projects which were allocated Rs.1,026,085,000, had been only Rs. 2,253,344 equivalent to 0.2 per cent.	Agree with the observation.	Sustainable Development Goals and targets should be identified and achieved.