

Kegalle Municipal Council – 2023

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kegalle Municipal Council, established on 20 March 2023 by the Gazette notification No. 2296/05 dated 06 September 2022 issued by the Minister of Local Government in accordance with the powers vested by Sections 2, 3, 5, and 9 of the Municipal Council Ordinance (Cap. 252), for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, cash flow statement, statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 the Municipal Council Ordinance (Cap.252). My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the matters described in Section 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kegalle Municipal 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 Principles.

1.2 Basis for Qualified Opinion

I express a qualified opinion on the financial statements based on the matters described in Section 1.5 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 Generally Accepted Accounting Principles, 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 to be prepared of the Municipal Council.

1.4 Audit Scope (Auditor's responsibility on 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the Municipal Council has performed according to its powers, functions and duties;
- 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observations	Comment of the Council	Recommendation
(a) The land and building expenses amounting to Rs. 1,606,678 had not been capitalized.	It will be corrected during the preparation of the account for the year 2024.	The capital assets must be properly accounted for.
(b) The revenue from court fines had been understated by Rs. 296,750.	It will be corrected during the preparation of the account for the year 2.	Revenue for the year must be properly accounted for.
(c) The court fines revenue debtors had been understated by Rs.326,750.	It will be corrected during the preparation of the accounts for the year 2024.	Revenue debtors must be properly accounted for.
(d) Stamp fee revenue debtors had been understated by Rs. 19,941,754.	The details regarding the relevant stamp duties for the respective year are not received within the same year, and due to delays in their receipt, it has not been possible to include them for the relevant year.	- Do -
(e) At the end of the period under review, there was a difference of Rs 38,295,000 between the value of non-current assets and the balance in the Revenue Contribution to Capital Input Account as at that date.	Action will be taken to correct it in the future.	Financial statements should be prepared accurately.
(f) During the preparation of the financial statements of the newly established Municipal Council, the following adjustments had not been made.		
(i) The tax amount of Rs. 2,479,545, equivalent to 1% of the value of land plots sold, the penalty of Rs. 294,943 charged for damage to flowerpots, and the Rs. 1,594,518 received for damage to roads had not been credited to revenue but retained in the general deposit account. As a result, the	It will be corrected during the preparation of the account for the year 2024.	- Do -

accumulated fund had been understated by said amounts.

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| (ii) The total expenditure of Rs. 40,386,382 incurred for the improvement of fixed assets over the past two years had not been capitalized. | It will be corrected during the preparation of the account for the year 2024. | Capital expenditure should be properly accounted for. |
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1.5.2 Unreconciled Control Accounts

Audit Observations	Comment of the Council	Recommendation
At the end of the review period, a difference of Rs. 8,101,105 was observed between the balance in the General Stores Account as per the financial statements and the related schedules.	It will be corrected during the preparation of the account for the year 2024.	Accounts should be corrected by reconciling with the schedules.

1.6 Non-compliance

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

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Council	Recommendation
a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i. Financial Regulation 373	Although all imprests were required to be settled by December 31, the imprests of Rs. 25,920 provided by the Kegalle Municipal Council on 08 July 2013, remained unsettled even as of 31 December 2023.	Action will be taken to settle the dues.	Action should be taken in accordance with Financial Regulations
ii. Financial Regulation 571	A total of 211 lapsed deposits amounting to Rs. 9,871,826, transferred by the Kegalle Municipal Council, had not been settled.	Actions are being taken to settle them.	- Do -

- b) Public Finance Circular No. 02/2020 dated 02 August 2020. Three measurable performance indicators that clearly define the tasks to be performed by the Council had not been identified. Actions will be taken concerning this matter in the future. Action should be taken in accordance with the circular.
- c) Local Government Circulars
- i. Local Government Circular No. 2018/e No.01 dated 19 July 2018. Facilities for citizens to make payments online had not been provided, nor had a Public Office Customer Service Center been established to deliver a people-friendly service. Actions will be taken concerning this matter in the future. Action should be taken in accordance with the circular.
- ii. Clause 2 of Circular No. 1988/22 dated 17 May 1988. Although property assessments were required to be conducted every five years for the purpose of levying rates, the rates had been charged based on the 2000 assessment. The Valuation Department is currently conducting property assessments. Action should be taken in accordance with the circular.

2. Financial Review

2.1 Financial Results

According to the submitted financial statements, the income exceeding the recurrent expenditure of the Council for the period ending 31 December 2023, amounted to Rs. 148,477,448.

2.2. Revenue Administration

2.2.1 Estimated revenue, billed revenue, collected revenue, and outstanding revenue.

According to the information presented by the Council, the details regarding billed revenue, collected revenue, and outstanding revenue for the period under review are as follows.

Source of Revenue	As at 31 December 2023		
	Billed revenue	Collected revenue	Total outstanding amount
	Rs.	Rs.	Rs.
Rates and taxes	8,054,482	5,746,037	5,590,343
Rental	55,788,296	55,343,185	5,379,087
Licence fees	2,317,557	2,723,357	164,000
Other income	<u>134,678,300</u>	<u>75,889,116</u>	<u>35,727,904</u>
Total	<u>200,838,635</u>	<u>139,701,695</u>	<u>46,861,334</u>

2.2.2 Performance in the collection of revenue.

Audit Observations	Comment of the Council	Recommendation
(a) Rates and taxes According to the information provided for the relevant period under review, the outstanding rates and tax balance to be collected amounted to Rs. 5,590,343. However, the penalties levied and age analysis applied to the outstanding rates had not been presented according to the software used for rates.	A suitable computer software will be acquired in the future.	Outstanding tax amounts should be collected, and information regarding penalties and age analysis should be obtained.
(b) Rental		
(i) The outstanding rent balance to be collected at the end of the period was Rs. 2,192,473, with Rs. 391,350 being due for a period of 2 to 5 years, and Rs. 765,110 being due for exceeding 5 years.	The outstanding balance is currently being collected.	The Council's income should be collected on a timely basis.
(ii) The outstanding stall rent penalty balance to be collected at the end of the period amounted to Rs. 2,425,364, with Rs. 2,055,363 being due for more than 5 years.	Actions are being taken to collect the amounts.	The outstanding penalty on stall rents should be collected.
(iii) The recoverable balance of the rental on inn amounted to Rs. 2,945,457, with Rs. 2,443,431 being due for a period of 1 to 3 years and Rs. 502,026 being due for more than 5 years.	It has been notified to make the payment to the Urban Development Authority.	Outstanding rents should be recovered.

3. Operating Review

3.1 Management inefficiencies.

Audit Observations	Comment of the Council	Recommendation
(a) The amount of Rs. 188,485, received from the Chief Ministry on 25 January 2017 for administrative expenses related to industrial constructions in the jurisdiction, was not utilized for the intended purpose	It has been decided to procure a photocopying machine.	Funds should be utilized for an appropriate task.

and was kept idle in the General Deposit Account.

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| <p>(b) Under the lease of lands belonging to the Kegalle Municipal Council, a 24.54 perches large plot of land, consisting of Assessment Numbers 303 and 305 located on Francis Molamure Mawatha, had been continuously leased to an external party without a tender since 2006, and no agreement was made with the lessee after 2019. However, from 2020 to 2023, a total of Rs. 74,000 in lease had been collected. Although a permanent building had been constructed on this property without the Council's approval and in violation of the existing agreement, the Municipal Council had not taken steps to recover the possession as of the audit date on 30 September 2024.</p> | <p>Due to the construction of the building without approval, steps are currently being taken to recover the possession in the future.</p> | <p>Measures should be taken to secure the properties owned by the Council.</p> |
| <p>(c) The waste tax had not been collected in 2023 compared to the year 2020.</p> | <p>Since there is only one revenue officer, it is difficult to allocate time for this task.</p> | <p>The council's revenue should be duly collected.</p> |
| <p>(d) During the period under review, a total of Rs. 2,559,150 received for the booking of the town hall, Rs. 1,556,250 received for entertainment tax, and Rs. 120,000 collected for flower pot damages were kept idle in the General Deposit Account without being settled and credited to the revenue.</p> | <p>The actions will be taken to correct in the future.</p> | <p>The income related to the year of accounts should be properly accounted for</p> |

**3.2 Assets Management
Audit Observations**

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| <p>(a) According to the Asset Management Circular No. 05/2020 dated 02 October 2020, actions to dispose of or repair and put into use 17 vehicles that were not in operational condition had not been taken even by the date of audit on 30 September 2024.</p> | <p>Disposal and repair work is in progress.</p> | <p>Action should be taken in accordance with the circular.</p> |

(b)	According to Section 8.1 of the Public Administration Circular No. 30/2016 dated 29 December 2016, a fuel consumption test should be conducted either after a 12-month period from every test or after driving a distance of 25,000 kilometers, or after a major engine repair, whichever occurs first. However, such actions had not been taken for 17 vehicles. Among these vehicles, it was observed that the milometers of 15 vehicles had become inoperative.	Due to the unavailability of new milometers in the market, they could not be installed.	Action should be taken in accordance with the circular.
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3.3 Deficiencies in the Contract Administration

Audit Observations

A contract worth Rs. 14.98 million had been signed with an external party on 28 October 2019 for the construction of the Olgama-swimming pool pavilion and Office Rest Room Phase II. The work was scheduled to be completed by 31 December 2019. However, by the date of audit on 09 September 2024, despite incurring a cost of Rs. 18,571,534, the project could not be utilized due to incomplete essential work components. Additionally, the equipment valued at Rs. 2,521,000 installed at the swimming pool had its warranty period expired by the date of audit on 09 September 2024. As a result, any defects in the machinery could not be covered under the warranty. Furthermore, the two sets of equipment, valued at Rs. 4,908,250, had their warranty period expired by one year and six months by the date of audit. By the time of the audit, the site had become overgrown with weeds, rendering the cost incurred on the project to be fruitless.

Comment of the Council

It has been decided to complete the work in the industry and utilize it for public benefit.

Recommendation

Action should be taken to use public property effectively.

4. Accountability and Good Governance
4.1 Presentation of Financial Statements

Audit Observations

The statement of financial position of the Municipal Council as of 31 December 2023, along with the statement of financial performance, the cash flow statement, significant accounting policies, and notes related to the financial statements for the period ending on that date, were presented for audit on 30 September 2024.

Comment of the Council

It was notified on 28 May 2024 to take steps to present the accounts related to the Municipal Council for the period from 20 March 2023 to 31 December 2023. Accordingly, the relevant accounts have been prepared and submitted.

Recommendation

Action should be taken in accordance with the circular pertaining to the presentation of accounts.