

Kegalle Urban Council, dissolved according to the Gazette Notification No. 2296/05 of the Minister of Local Government dated 06 September 2022, and its affairs for the year ended 19 March 2023

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kegalle Urban Council, dissolved by the Gazette Notification No. 2296/05 dated 06 September 2022 of the Minister of Local Government under Section 14 of the Urban Council Ordinance (Cap. 255), for the period ended 19 March 2023 comprising the statement of financial position as at 19 March 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, and the winding up account as at 19 March 2023, 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 Sub-section 181 (1) of the Urban Council Ordinance (Cap.255). 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 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kegalle Urban Council as at 19 March 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 1.6 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 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 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 to be prepared of the Urban 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 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 Municipal Council;
- Whether the Urban Council has performed according to its powers, functions and duties;
- 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 includes specific provisions regarding the following requirements:

- (a) According to the requirement stated in Section 6(1)(d)(iii) of the National Audit Act No. 19 of 2018, the financial statements of the Urban Council are consistent with that of the previous year.
- (b) According to the requirement specified in Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018, the recommendations I made during the previous year are included in the financial statements presented.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

Audit Observation	Comment of the Council	Recommendation
The journal entries associated with the financial statements had not been approved with signatures.	Action will be taken to rectify this in the future.	Every journal entry must be approved.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The court fine revenue had been understated by Rs. 110,500.	Action will be taken to rectify this in the future.	The financial statements must be prepared accurately.
(b) The member allowances amounting to Rs. 436,670 and staff salaries amounting to Rs. 4,099,042 for the month of March had been understated in the accounts until 19 March 2023.	Action will be taken to rectify this.	- Do -

(c) The stamp duty revenue to be received has been understated by Rs. 33,176,830.	Action will be taken to rectify this.	- Do -
(d) The weekly fair fines amounting to Rs. 104,922 receivable as at 19 March 2023 had not been accounted for.	Action will be taken to rectify this.	- Do -
(e) From 2017 to 2022, Rs. 2,466,022 received for the reservation of the town hall and Rs. 5,546,398 received as entertainment tax were not accounted for as revenue in the respective years. Consequently, the accumulated fund had been understated by these amounts.	Action will be taken to rectify this.	The financial statements must be prepared accurately.
(f) Since a sum of Rs. 645,000 received for the reservation of the town hall and Rs. 1,320,000 of entertainment tax deposits received during the period under review had not been credited to the revenue, the revenue had been understated by these amounts.	Action will be taken to rectify this.	- Do -
(g) According to the previous year's stores verification reports, stock worth Rs. 348,931 in the electrical division had not been accounted for.	Action will be taken to rectify this.	- Do -
(h) As the total amount of Rs.1,594,518 received for 04 different subjects was not credited to the revenue and was instead held in a deposit account, the accumulated fund has been understated by that amount.	Action will be taken to rectify this.	- Do -

1.6.3 Unreconciled Control Account

Audit Observation

When comparing the balances of 10 items of account as at the end of the period under review according to the financial statements

Comment of the Council

Action will be taken to rectify this.

Recommendation

The subsidiary documents should be compared with the account

and the subsidiary documents, a difference of Rs. 692,006 was observed.

balances and rectified accordingly.

1.7 Non-compliance

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

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

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Council	Recommendation
a) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
i. Financial Regulation 373	Although all imprests were to be settled by December 31, the imprests of Rs. 25,920, which was provided on 08 July 2013, had not been settled even by 19 March 2023.	Action will be taken to settle the dues.	Action should be taken in accordance with the financial regulations.
ii. Financial Regulation 571	A total of 211 lapsed deposits amounting to Rs. 9,871,826 had not been settled.	Actions are being taken to settle them.	- Do -
b) Section 2.3 of the Public Administration Circular No. 05/2018(1) dated 24 January 2018.	The Council had not established a procedure for the preparation, monitoring, and evaluation of the citizen/client charter.	Action will be taken in the future.	Action should be taken in accordance with the circular.
(c) 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.	Action will be taken in the future.	Action should be taken in accordance with the circular.
(d) 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	Action will be taken in the future.	Action should be taken in accordance with the circular.

- deliver a people-friendly service.
- 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 19 March 2023, amounted to Rs. 14,837,390.

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	Billed revenue	Collected revenue	Total amount	outstanding
	Rs.	Rs.		Rs.
Rates and taxes	3,145,207	3,865,882		5,041,024
Rental	16,881,315	15,470,060		7,753,337
Licence fees	986,878	513,308		573,800
Other income	<u>17,623,991</u>	<u>21,703,322</u>		<u>27,077,277</u>
Total	<u>38,637,391</u>	<u>41,552,572</u>		<u>40,445,438</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. 5,041,024. However, the penalties levied and age	A suitable computer software will be acquired in the future.	Outstanding tax amounts should be collected, and information regarding penalties

analysis applied to the outstanding rates had not been presented according to the software used for rates.

and age analysis should be obtained.

(b) Rental

(i) The outstanding stall rent balance to be collected as at the end of the period under review was Rs. 3,020,658, with Rs. 448,300 being due for the period of 1 to 5 years and Rs. 765,110 being due for balances exceeding 5 years.

No comments have been submitted regarding the paragraph.

Outstanding stall rent income should be collected.

(ii) The outstanding balance of the stall rent fines as at the end of the period was Rs. 2,348,068, with Rs. 2,055,364 being due for balances exceeding 5 years.

A total of Rs. 226,729 has been collected so far, and efforts are being made to collect the remaining balance.

Outstanding stall rents should be recovered.

(iii) The recoverable balance of the rental on inn amounted to Rs. 2,474,645, with Rs. 1,110,200 being due for a period of 1 to 3 years and Rs. 502,026 being due for more than 5 years.

The lessee has been notified to make payments.

Outstanding rents should be recovered.

3. Operating Review

3.1 Assets Management

Audit Observations

Comment of the Council

Recommendation

(a) According to the Asset Management Circular No. 05/2020 dated 02 October 2020, actions to dispose of or repair and put into use 04 vehicles that were not in operational condition for over 11 years had not been taken.

Disposal activities are in progress.

Action should be taken in accordance with the circular.

(b) Since 03 vehicles were not utilized for operation during a period from 02 years to 04 years and 03 months, they remained underutilized.

The HS-1729 backhoe machine has been sent for repairs.

Assets should not be underutilized.

4. **Accountability and Good Governance**

4.1 **Presentation of Financial Statements**

Audit Observations

The statement of financial position as of 19 March 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 and the winding up account as at 19 March 2023, were presented for audit on 06 August 2024.

Comment of the Council

It was notified on 22 May 2024 to prepare and submit the accounts related to the Urban Council for the period from 01 January 2023 to 19 March 2023. Accordingly, the relevant accounts have been prepared and submitted.

Recommendation

Action should be taken in accordance with the Public Finance Circular.

4.2 **Audit management committees**

Audit Observations

The Urban Council had not held an audit and management committee meeting for the year 2023 by 19 March 2023, and only one meeting was held for the year 2022.

Comment of the Council

It is planned to hold audit committee meetings in the future on a quarterly basis.

Recommendation

Action should be taken in accordance with the Commissioner of Local Government's Circular No. 2/2018/14 and the instructions provided in the circular dated 19 October 2018.

4.3 **Internal Audit**

Audit Observations

Internal audit inquiries had not been issued for the relevant period pertaining to the Urban Council as of 19 March 2023.

Comment of the Council

Internal audit inquiries have not been presented.

Recommendation

Internal audits should be conducted, and inquiries should be issued accordingly.