Kattankudy Urban Council - 2024
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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kattankudy Urban Council including the financial statements for the year ended 31 December 2024 comprising the balance sheet as at 31 December 2024, Income and Expenditure Account, Cash Flow Statement for the year, 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 Urban Council Ordinance (Chapter 255) and provisions in sub-section 10(1) of the National Audit Act No.19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kattankudy Urban Council as at 31 December 2024, 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

My opinion is qualified 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 Generally Accepted Accounting Practices, 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

	Audit Observations	Comments of the Council	Recommendations
(a)	The total value Rs. 27,716,312 of 12 containers including 27 shops and 02 toilets owned by the Urban Council, had not been capitalized.	Action have been taken to capitalize the total value of these assets under plant, machineries and equipment.	Immediate action should be taken to show the values of container shops in the accounts as assets.
(b)	The value Rs. 965,500 of the containers issued to Council by second party, had not been shown in the accounts at the end of the year under review.	Action have been taken to disclose its value as an asset in the financial statements.	Immediate action should be taken to show as assets in the accounts.
(c)	Computer equipment worth Rs. 309,800 received as a donation during the year under review, was not shown as an asset in the financial statements.	Actions have been taken to show its value as an asset in the financial statements through appropriate adjustments.	Immediate action should be taken to show the donated computer equipment as asset in the accounts.
(d)	The values of 36 assets of 15 types sold during the year under review, were not deducted from the cost values of the assets.	Action have been taken to include into the financial statements through adjustment.	Immediate action should be taken to deduct the costs value of sold assets.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
As at 31 December of the year under review, fixed asset registers title deeds and schedule of 07 account balances amount of Rs.261,222,755 had not been submitted to the audit.	Answer had not been given	Action should be taken to obtain and enter the documents.

1.7 Non- Compliances

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

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendations
(a)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(i)	Financial Regulation 371(5)	Advance payments amounted to Rs. 10,541,294 made by the Council to the staffs, contractors and government institutions, which had not been settled up over from 02 month to 16 years.	A committee has been formed to investigate and action have been taken to resolve it.	Immediate action should be taken to identify and settle the advance payments.
(ii)	Financial Regulation 571 (1), (2) & (3)	Action had not been taken to repay to relevant persons or change as income the 16 types of deposits of Rs. 5,455,627 which were lapsed over two years.	Action have been taken to repay the deposits as per the requests of the relevant persons and to transfer all lapsed deposits into the income with the proper approval.	Immediate action should be taken to rectify lapsed deposits.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 16,366,794 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 13,148,387 in the preceding year.

2.2 Revenue Administration

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

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.

	2024				2023			
Source of Revenue	**Estimated Revenue**	**Revenue billed**	**Revenue Collected**	**Arrears as at 31 December**	**Estimated Revenue**	**Revenue billed**	**Revenue Collected**	**Arrears as at 31 December**
	(Rs.)	**(Rs.)**	**(Rs.)**	**(Rs.)**	**(Rs.)**	**(Rs.)**	**(Rs.)**	**(Rs.)**
Rates and Taxes	25,202,000	24,916,026	19,437,729	14,627,788	22,030,000	35,781,669	19,355,556	16,426,113
Rent Income	13,055,000	12,287,065	11,912,628	754,812	10,089,000	10,461,725	10,081,350	380,375
License Fees	4,120,000	4,682,220	4,608,030	102,750	3,920,000	4,366,495	4,337,935	28,560
Other revenue	29,814,680	37,761,183	37,437,033	831,975	96,553	41,092,693	40,584,868	507,825
Total	72,191,680	79,646,494	73,395,420	6,317,325	36,135,553	91,702,582	74,359,709	17,342,873

2.2.2 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

Audit Observations	Comments of the Council	Recommendations
(a) Rates and Taxes		
Although, the billed assessment tax was Rs. 19,850,217 during the year under review, Council had collected Rs. 12,808,105 amount only. Hence, out of the income tax arrears of Rs. 14,554,922 as at the beginning of the year under review, Rs. 4,595,862 was collected during the year under review and the remaining amount was in the range of 02 to 05 years.	Due to the Corona and economic crisis, there was an increase in outstanding balances. These are currently being collected.	Immediate action should be taken to collect the rate tax arrears.

(b) Rent

The Council had not taken any action to recover the lease arrears amount of Rs. 311,125 from 07 lessee till the date of audit.	Action had been taken to recover the lease arrears.	Immediate action should be taken to recover the lease arrears.

(c) Stamp Duty

Receivables Stamp duty Rs. 6,245,270 from the Chief Secretary of the Provincial Council and other officials as on 31st December 2024, for the period from 2017 to 2022, had not been collected.	Action has been taken to collect stamp duty arrears.	Immediate action should be taken to collect the stamp duty arrears.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observations	Comments of the Council	Recommendations
(a)	According to the Sec.3 (1) of Employee Provident Fund Act No. 15 of 1958 (Chapter623) and Sec. 16(1) of the Employees' Trust Fund Act No. 46 of 1980, the contributions for a particular month shall be paid to the particular funds before the end of the following month. Although, contribution and penalty should be paid for the failure of the payment within particular period, Council had not been taken action to pay the contribution amount of Rs. 11,978,899 for the period from January 2021 to end of the review year.	Action has been now taken to pay the amount part by part to the fund.	Immediate action should be taken to pay contributions to Employee Provident and Trust Funds within the due period.
(b)	Action had not been taken over 35 years to pay the payable amount of Rs. 6,642,879 to the Water Supply and Drainage Board and to recover the advance amount of Rs. 2,399,352 paid to the Electricity Board and to collect the relevant documents.	Action will be taken to bring it to the attention of the relevant parties by unable to obtain the documents and registers.	Immediate action should be taken to collect the documents and settle the long-term arrears.
(c)	During the year under review, action had not been taken to recover the amount Rs. 251,055 of 35,865 kilograms organic fertilizer sold on credit basis without any sales agreement, till the date of audit.	Relevant parties had been notified through two letters to pay the specified amount. Action will be taken if failure to pay the amount.	Immediate action should be taken to recover the all arrears without any loss.

3.2 Idle or under-utilized property, plant and machineries

Audit Observation	Comment of the Council	Recommendation
Two containers with toilet facilities constructed at a cost of Rs. 3,437,300 had not been made available for public use, it had been damaged due to lack of proper maintenance and idled over two years.	Actions are being taken to provide them for the public use through a lease agreement to earn the income with the repairing and proper protection.	Immediate action should be taken to get the maximum benefit through providing the containers to the public use.

3.3 Assets Management

	Audit Observations	Comments of the Council	Recommendations
(a)	Although, board of survey committee had recommended to repair and reuse the 11 vehicles during the year under review, action had not been taken to repair and reuse the vehicles up to the date of audit.	Action is being taken to repair.	Immediate action should be taken to repair and reuse the vehicles.
(b)	Action had not been taken to acquire ownership of the 22 vehicles under the control of the council.	Continuous action is being made to transfer the ownership of vehicles.	Action should be taken to acquire ownership of the vehicles used by the council.

3.4 Procurement Management

Audit Observation	Comment of the Council	Recommendation
As per paragraph 05(b) of the Eastern Provincial Finance Circular No. PT/04(i)/2017 dated 21st September 2017, a relevant subject person should be appointed in Technical Evaluation Committee when procurement process. as per the 06 no. of procurement process during the year under review, an electrician was not appointed in the Technical Evaluation Committee during the procurement of electronic equipment worth Rs. 1,935,280 in 12 situations.	Actions had been taken to appoint an electrician to the Technical Evaluation Committee in the future.	Action should be taken to appoint an electrician to the Technical Evaluation Committee.

3.5 Defects Contract Administration

Audit Observation	Comment of the Council	Recommendation
Estimate had been prepared for the contract works in excess price over the standard price of the Building Department, when preparing the estimate for the 03 contract works. Because of this, the Council had made a payment of Rs. 233,152 to the contractor during the year under review.	Action will be taken to avoid any mistakes in the future.	Action should be taken to make payments for construction contract works based on standard prices.

3.6 Human Resources Management

	Audit Observation	Comment of the Council	Recommendation
(a)	Public services were weak due to the lack of action taken to fill 06 staff vacancies approved by the Management Service Department.	Action is being taken.	Action should be taken to fill up the staff vacancies.
(b)	Loan amount of Rs. 290,308 from retired 07 employees, dismissed 04 employees and transferred an officer, action had not been taken to recover over long years.	A committee has been formed in this regard and steps are being taken to investigate and correct the issues.	Immediate action should be taken to recover employee loan arrears.

4. Accountability and Good Governance

4.1 Sustainable Development Goal

Audit Observation	Comment of the Council	Recommendation
Although, Rs. 9,372,000 had been allocated in the budget for the year under review for the 26 indicators for the 16 Sustainable Development Goals expected to be achieved by 2030, allocated amount Rs. 8,501,782 were not spent for the particular purpose.	Actions are being taken to properly implement the expenditures related to the allocated indicators in the future year.	The budget should be prepared efficiently and immediate action should be taken to achieve the objectives accordingly.