

Kadugannawa Urban Council - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kadugannawa Urban Council for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 and Income and Expenditure Account, 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 sub-section 181(1) of the Urban Councils Ordinance (Chapter 255) and sub-section 10 (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 Kadugannawa Urban Council as at 31 December 2024, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices

1.2 Basis for Qualified opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements

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 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 all 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) A total of Rs. 476,680 in respect of 02 development projects that had been abandoned without being implemented as of the end of the year under review had been recorded under creditors	That amount will be written off in the future.	Accounts should be prepared correctly.
(b) Land taxes payable to the Railway Department for the year under review had been overstated by Rs. 3,135,142.	Action will be taken to write off the amount when preparing the final accounts for the year 2025.	- Do -

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 195,256 in comparing the advance account balance shown in the financial statements with the related ledger account balance as at the end of the year under review.	The correction will be made when preparing the accounts for the year 2025.	The account balances shown in the financial statements should be reconciled with the corresponding ledger account balances and corrected.

1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

	Reference to Laws, Rules Regulations	Non-compliance	Comments of the Council	Recommendation
(a)	Urban Development Authority Act No. 41 of 1978			
(i)	Section 84 of Part VI of the amended Planning and Building Regulations published in the Gazette under Section 21 of the Urban Development Authority Act, No. 41 of 1978, published in the Gazette Extraordinary No. 2235/54 dated 08 July 2021, read with Section 08 of that Act.	Certificates of Conformity had not been issued for 262 building plans approved during the period from 2020 to 2024 in the Council area.	So far, it had been informed through letters.	Arrangements should be made to issue certificates of conformity for buildings used for residential purposes.
(ii)	Section 28 of the Extraordinary Gazette No. 2235/54 issued as an amendment to the Urban Development Authority Act No. 41 of 1978 and dated 08 July 2021	37 constructions were carried out without obtaining development permits.	Further action will be taken after follow-up procedure.	Legal action should be taken against unauthorized construction.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R,571(3)	Action had not been taken to settle 32 retention deposits amounting to Rs. 532,332 which had been lapsed for the period from 2014 to 2023.	It will be settled in the future.	Lapsed deposits should be settled.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2024 amounted to Rs.9,135,635 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 6,308,331 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the Secretary of the Council 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.	
(i) Rates and Taxes	14,253,000	14,692,342	13,431,486	8,649,187	8,970,000	8,757,940	7,974,720	7,388,331	
(ii) Rent	5,650,000	5,660,042	5,891,680	1,954,843	6,370,000	6,049,802	5,275,832	2,186,481	
(iii) License Fees	915,200	781,748	781,748	27,500	750,200	679,593	679,593	27,500	
(iv) Other revenue	13,785,000	12,968,687	11,138,568	10,050,655	14,345,000	11,543,200	16,301,441	8,220,536	
Total	34,603,200	34,102,819	31,243,482	20,682,185	30,435,200	27,030,535	30,231,586	17,822,848	

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the Council	Recommendation
(a) Rates		
(i) The arrears of rates as at 31 st December of the year under review was Rs. 8,564,227. Therein, there was a arrears balance of Rs. 862,997 from 52 private property units with a unit value exceeding Rs. 10,000. The arrears of rates had not been collected in accordance with Section 171 of the Urban Council Ordinance (Authority 255).	Actions have been taken to recover the arrears.	Arrears of revenue should be collected promptly.
(ii) As of the end of the year under review, Rates of Rs. 1,040,431 had not been collected from 40 government institutions.	Action will be taken to recover the amount in the future.	-Do-

(b) Rent		
(i) Stall Rent		
The stall rent arrears as of 31 December of the year under review were Rs.1,292,268. Out of this balance, the arrears for more than 03 years were Rs.332,127.	The relevant action to recover are being taken and legal action is being taken.	Arrears of revenue should be collected promptly.
(ii) House rent		
A house rent balance of Rs. 254,000 as of the end of the year under review, had not been collected from 06 tenants since the year 2019.	Action will be taken to recover the outstanding amount.	Action should be taken to recover the arrears of revenue.
(c) Court fines and Stamp duty		
Receivable Court fines of Rs. 10,249 and stamp duty of Rs. 8,137,005 should have been collected from the Chief Secretary of the Provincial Council and other authorities as of 31 December 2024.	Action will be taken to settle and recover in 2025.	Court fines and stamp duty should be collected.
(d) Other Income		
(i) Advertisement board fees		
As of 31 st December of the year under review, there was an arrears balance of Rs.1,483,517, Therein; a total of Rs.1,303,525 was to be recovered from 33 institutions with arrears of more than Rs.10,000.	-Do-	-Do-
(ii) Rest House charges		
A rest house charge of Rs.243,750, which had been carried forward for 5 years, had not been collected.	-Do-	-Do-
(iii) Garbage tax		
The arrears as at 31st December of the year under review were Rs.419,889, Therein, a total of Rs. 303,034 was due from 28 institutions with arrears of more than Rs.5,000.	-Do-	-Do-

3. Operational Review
3.1 Management inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) According to the inspection report under Financial Regulation 104(4) of the Democratic Socialist Republic of Sri Lanka, the amount of Rs. 1,360,800, which was irregularly paid to the Railway Department in connection with the acquisition of a building belonging to the Railway Department on lease basis, had been approved on 05 June 2023 to be recovered from the relevant responsible parties, but had not been recovered by the end of the year under review.	No comments	The losses should be recovered from the relevant parties.
(b) The amount of Rs. 462,530 payable to the Contributory Pension Fund had not been paid even by the end of the year under review.	The outstanding balance will be settled.	Pension contributions should be paid.
(c) The balance of garbage receivables as at 31st December of the year under review was Rs. 419,889. This included balances of Rs.139,530 relating to years 01 to 05.	Action will be taken to recover the outstanding amount.	The arrears should be collected.
(d) Although according to the Planning Circular No. 08 of the Urban Development Authority No. 05/1/119 dated 30 th September 1987, the money in the investment account opened on behalf of the Urban Development Authority should be used for regional development after inquiring the Urban Development Authority, none of the money out of the total balance of Rs. 1,546,085 as at the end of the year under review had been used for regional development.	It will be used for development projects in the future.	Surplus money should be used for regional development.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
Three vehicles used by the council with a total value of Rs. 16,965,000, a tractor trailer whose value has not been ascertained, and a stone roller that was donated, which have been idle or underutilized for a period of between 3 and 7 years.	The Department of Local Government has been informed through letters.	It should be repaired and utilized or disposed of.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
The ownership of 03 lands and buildings and a fire engine, totalling Rs.162,791,750, used by the council, had not been taken over.	The necessary steps are being taken to acquire.	Action should be taken to acquire property owned by the council.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) When comparing the approved staff and the actual staff, there were 24 vacancies in 14 posts and 17 excess in one post.	Further actions for recruitment are being carried out.	Vacancies should be filled and appropriate action should be taken regarding excess employees.
(b) Action had not been taken to recover the loan balance of Rs. 662,966 of 10 officers who left the service, resigned from service, retired, went abroad, were suspended and died between 2019 and 2024.	Actions will be taken to recover employee loans.	Arrears of employee loans should be settled.

3.5 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
Due to the malfunction of the milometers of 04 vehicles at the end of the year under review, the accuracy of Rs. 857,896 spent on 2,762 liters of fuel between December 2023 and December 31, 2024 could not be verified.	The necessary action is being carried out to repair the milometer	The milometer should be repaired.