

## **Kadugannawa Urban Council – 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Kadugannawa Urban Council including the financial statements for the year ended 31 December 2021 comprising the Statement of Balance sheet as at 31 December 2021, Statement of Financial Operations 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 Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report 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 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

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I expressed qualified opinion 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**

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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's 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)**

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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

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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

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### 1.6.1 Accounting Deficiencies

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Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Ledger accounts had not been prepared in respect of Advertising board revenue relevant for the year under review and Advertising board revenue in arrears and received in advance and the Advertising board revenue of Rs.315,500 due on December 31 of the year under review had not been accounted for.	It has been informed that action will be taken to prepare accrued and in advance Advertising board revenue accounts in the ledger regarding the Advertising board revenues in the year 2022.	The income and arrears for the year should be properly accounted for.
(b) The total of 07 fixed asset balances of Rs.2,525,624 had not been accounted for.	It has been informed that it will be accounted for in the preparation of the financial statements of the year 2022.	Assets owned by the council should be identified and correctly accounted for.
(c) 07 Projects worth Rs. 4,910,737 which had been completed in the current year based on the allocation of 03 funding sources under the Kadugannava Urban Council Development Program had not been capitalized.	It has been informed that, the mentioned Projects will be capitalized while preparing the financial statements in the year 2022	According to the work reports done in relation to the completed projects of the year, the costs should be recognized and those assets should be capitalized.
(d) In various cases, the value of 16 plots of land including 05 plots of land worth Rs.5,022,000 and three buildings located on them had not been assessed and accounted for.	It has been informed that the given list will be checked and assessed and accounted for in the preparation of the financial statements of the year 2022.	Property owned by the council should be identified, valued and accounted for.

## 2. **Financial Review**

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### 2.1 **Financial Result**

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 104,220 as compared with the excess of revenue over recurrent amounted to Rs. 1,367,771 in the preceding year.

### 2.2 **Revenue Administration**

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#### 2.2.1 **Performance in Revenue Collection**

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Audit Observation	Comments of the Council	Recommendation
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(a) <b>Rates and Taxes</b>		
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Although the assessment tax should be assessed once in 05 years, the assessment tax in the reviewed year of the Urban council area was collected based on the assessment value made in the year 2012.	As there is a shortage of officers in the Valuation department, the Valuation department is expected to give the necessary solution this year.	New assessment reports should be obtained.
(b) <b>Other income</b>		
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In deciding that 80 percent of the revenue from the sale of recycled materials of Rs. 212,678 in the reviewed year should be paid as incentives among the employees of the health sector and the remaining 20 percent should be charged to the council's income the related expenses were not taken into account and the Governor's approval was not obtained for the payment of incentives.	In the current year, formal council approval has been obtained by now and payment has been made.	Additional allowances should be paid to the council employees after taking the approval of the Governor.

### 3. **Operational Review**

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Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

#### 3.1 **Management Inefficiencies**

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Audit Observation	Comments of the Council	Recommendation
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(a) As per the financial statements as at the end of the year under review, the receivable balance was Rs.12,645,152 and the outstanding balance related to the period between 01 to 3 years was Rs.1,889,989.	It has been informed that Rs. 3,908,359 has been collected from the existing balance relating to a period of less than a year, and letters have been sent to recover outstanding shop rents and rest house fees for a period of 03 years and legal action has been taken for 03 stalls.	All balances due should be recovered.
(b) 1,360,800 rupees had been paid for the lease of the 8000 square feet fertilizer warehouse owned by the railway department for the purpose of making it a tourist town for the purpose of creating tourist attraction. Also, the two parties did not enter into an agreement regarding the related lease property and it remained idle without being used for any purpose.	It has been informed that the Urban Development Authority was informed to provide information regarding the plans, estimates and time taken in this regard and after receiving the relevant information, the contract will be entered into.	The property should be leased on formal agreements and the property should be used for the intended purpose.

### 3.2 **Idle or underutilized Property, Plant and Equipment**

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Audit Observation	Comments of the Council	Recommendation
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Although it was decided to auction 03 unusable motor vehicles worth Rs.8,719,050 belonging to the council on November 29, 2021 based on a council decision, they remained idle as of December 31 of the year under review.	A letter of request to appoint a valuation committee has been forwarded to the Local Government Department on 30.01.2022.	If the vehicles are unusable, proper procedures should be followed to dispose of them.

### 3.3 **Assets Management**

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Audit Observation	Comments of the Council	Recommendation
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Although the General Assembly had decided to remove the wood-burning crematorium built under specific provincial development projects and replaced by the gas-powered crematorium to be built by using the Ministry of Local Government allocation of 10 million, Construction of the new crematorium had not been completed and the wood-fired crematorium also remained inactive.	It has been informed that the crematorium, which was operated using firewood, is in an inactive state as there is no provision for repairs and necessary measures will be taken in the future.	Necessary arrangements should be made to restore the crematorium, which operates as an essential service in the area.

### 3.4 **Human Resources Management**

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Audit Observation	Comments of the Council	Recommendation
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Employee vacancies and surplus		
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There were 19 vacancies in 12 approved staff positions and 15 surpluses of employees in 02 positions. Instead of recruiting for post of public health inspector and the post of librarian which is essential to exist in the institution, recruitment was done on contract basis.	As there is vacancy of posts of public health inspector and librarian posts are recruited on contract basis.	Action should be taken to fill the vacancies of essential posts.

4. **Accountability and Good governance**

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**Solid waste Management**  
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Audit Observation

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About 01 ton of perishable garbage collected daily in the Urban area was taken to the garbage yard in Kirimatia area at an annual cost of Rs.243,000, while non-perishable garbage was baled and taken to Puttalam area at a cost of Rs.182,754 in the year under review. No action had been taken to identify a proper place to dispose of the garbage of Urban council and dispose of the garbage properly.

Comments of the Council

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It has been informed that the council does not have a specific land for garbage disposal and that they are working to identify a land.

Recommendation

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A program should be implemented to properly manage solid waste.