

## **Kolonnawa Urban Council - 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kolonnawa Urban Council for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, Statement of Comprehensive Income, Statement of changes in Net Assets/equity, Cash Flow Statement 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 Urban Council Ordinance (Chapter 255) and sub-section 10(1) 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 Kolonnawa Urban Council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

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

I expressed qualified opinion regarding financial statement 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 Sri Lanka Public Sector Accounting Standards for Local Authorities, 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 include specific provisions for following requirements.

- (a) The financial statements of the Urban Council 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 of this report 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
(a) In accordance with paragraph 3.31 of Chapter 3 of the Standard, the loss on disposal of assets of Rs.344,497 had not been stated under adjustments in the cash flow statement.	The loss on disposal of assets of Rs.344,497.43 had been adjusted under the name of loss on sale of fixed assets.	The cash flow statement should be prepared in accordance with the standard.
(b) Although the capital expenditure grants received in cash as per paragraph 3.30 of Chapter 3 of the Standard were Rs.4,147,924, the cash flow statement had overstated the cash inflow by Rs.44,055,938 by adjusting it to Rs.48,203,862.	In the future, adjustments will only be made to the value of capital expenditure grants received in cash during the year.	The cash flow statement should be prepared in accordance with the standard.
(c) In accordance with paragraph 17.2 of Chapter 17 of the Standard, Rs.7,157,040 for a bill due on 31 December 2024 for the Wellampitiya Shopping Complex had been paid on 31 January 2025, but no action had been taken to correct the amount from the accounts.	That only the estimated amount expected to be completed during the year for projects will be allocated from the annual budget and that the value of unpaid bills completed during the year will be allocated as creditors.	The cash flow statement should be prepared in accordance with the standard.

## 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although the transfers made by the government for recurrent expenditure were Rs.186,810,708, it was stated as Rs.186,922,678 and this included Rs.111,970 which should have been credited to sundry income.	That it will be accounted for under the sundry income heading from the year 2025.	Accounting should be correctly.
(b) Rs.14,599,323, which was to be debited to the Building Account for the payable expansion of funeral parlor facilities, had been debited to the Fittings Account.	That the expenses to be paid will be accounted for in the building account.	Accounts must be classified correctly.
(c) Although the actual expenditure payable in respect of projects from capital grants as at 31 December of the year under review was Rs.9,442,834, due to the accounting of contracted values, capital receipts receivable and capital expenditure allowances were overstated by Rs.9,442,834.	That amortization is calculated for the correct value in the year 2024.	Accounting should be correctly.
(d) Although Rs.435,643 had been received from the local government for Rs.458,571 spent on sports equipment, the capital receipts and capital expenditure allowances due had been overstated by Rs.435,643 by accounting for that amount under capital grants.	Over-accounting will be corrected.	Accounting should be correctly.
(e) Due to the accounting of contractual values without considering the bill values when allocating industrial creditors, the creditors and assets values were overstated by Rs.9,230,435.	That step will be taken to remove the creditor's account and related assets from the accounts.	Accounting should be correctly.

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| (f) | Due to the determination of values without taking into account the retention money when separating industrial creditors and debtors, the balance of creditors and receivables had been under-accounted by Rs.622,523.   | That the amount of Accumulated Funds Rs.168,277 has been adjusted to the Surplus and Deficit Account.                                     | Values must be accounted for accurately. |
| (g) | Due to under- and over-accounting of depreciation, the total depreciation expense for the year was over-accounted by Rs.2,258,635.  | Depreciation value of Rs.50,362 will be Accounted. The difference of Rs.2,308,997 will be corrected.                                      | Values must be accounted for accurately. |
| (h) | Although the wiring project for the building at the Meethotamulla garbage yard, which was Rs.550,000, which was accounted for in the creditors and assets accounts in the year 2022, had been abandoned, the creditors and assets values were overstated by that amount because it was not removed from the accounts. | The removal of assets and creditors from accounting and the removal of the depreciated value of buildings of Rs.13,750 will be corrected. | Values must be accounted for accurately. |
| (i) | In calculating transfers from the government for non-recurring expenses, the amortization value of fixed assets received through capital grants in the year 2024 was Rs.2,471,598, which was included in the income of the current year, and the income was increased by that value.                                  | The value of Rs.2,471,598 will be corrected.  | Values must be accounted accurately.     |
| (j) | The consultancy and supervision fee of Rs.360,000 for wiring the Urban Council building had been debited to the Fittings Account instead of being debited to the Building Account.  | That the supervision fee of Rs.360,000 be corrected in the fitting account.   | Accounts must be classified correctly.   |
| (k) | Although the unrecognized balance under current assets was Rs.40,968,364, the VAT payable balance of Rs.1,278,233, which should have been shown under current liabilities, had been reduced to Rs.39,690,130 as unrecognized balance.   | When accounting for unrecognized balances, those are accounted for separately as current assets and current liabilities.                  | Accounts must be classified correctly.   |

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| (l) | The money paid to the contractor in 2023 for the construction of the Wellampitiya Shopping Complex was debited to the Building Account instead of being debited to the Work in Progress Account. | That it will be accounted for in the preparation of financial statements as at 31 December 2025. | Must be accounted correctly. |
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## 1.7 Non- Compliances

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Urban Council Ordinance  Section 45	Although a fee of Rs.958,559 had been charged for the resurfacing of 176 square meters of roads using pre-mixed aggregate in four excavations carried out for road excavation and sewage, those roads had not been resurfaced by the end of the year.	The work administrators have been instructed to maintain a register and it is currently being maintained.	Relevant repair should be made.
(b)	Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R 371(5)	There was a delay ranging from 23 days to 106 days in settling advances of Rs.113,300 obtained within the first 04 months of 2024.	Action will be taken in accordance with F.R 371(5) in the future.	Advance should be settle in accordance with the financial regulations.
(c)	Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016	An inspection had not been conducted regarding the fuel combustion of 06 vehicles owned by the council.	That fuel combustion tests will be carried out every 6 months.	Fuel combustion tests of vehicles should be carried out as per the circular.

## 1.7.2 Non -compliance with Tax Regulations

Audit Observation	Comments of the Council	Recommendation
Action had not been taken to settle the outstanding VAT balance of Rs.1,278,234, which had been brought forward as an unidentified balance for almost 05 years.	Future action will be taken after further asked with the Commissioner of Inland Revenue.	Action must be taken to settle liabilities.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.55,860,560. as compared with the excess of revenue over expenditure amounted to Rs.34,263,400 in the preceding year.

### 2.2 Revenue Administration

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

The information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year submitted by the Secretary is shown below.

2024					2023				
Source of Revenue	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
(i) Rates and Tax	216,102,000	171,124,004	168,884,614	80,101,733	100,000,000	92,623,581	86,617,771	79,421,106	
(ii) Rent	31,054,068	11,124,119	22,223,433	10,075,817	11,252,616	11,444,682	10,435,416	10,092,266	
(iii) License fee	1,250,000	1,250,000	1,537,400	-	600,000	721,000	721,000	-	
(iv) Other Revenue	75,378,000	75,378,000	78,143,565	-	6,521,028	5,659,527	5,659,527	-	
Total	323,784,068	258,876,123	270,789,012	90,177,550	118,373,644	110,448,790	103,433,714	89,513,372	

### 2.2.2 Performance in Revenue Collection

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

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Out of the rates arrears of Rs.80,101,733 as at the end of the year under review, Rs.26,622,207 were due from 97 balances exceeding Rs.50,000, which was 33 percent of the total arrears.	That action will be taken to recover it.	Action should be taken to recover the outstanding balance.
(b) The balance receivable from 164 shops as at 31 December 2024 was Rs.7,842,359 and out of the total rent received during the year of Rs.9,576,070, Rs.2,649,626 were outstanding rent collections for previous years.	Arrangements have been made to collect the outstanding amounts of the shops when new shops are provided.	Action should be taken to recover the outstanding balance.
(c) The stamp duty receivable from the Chief Secretary and other officers of the Provincial Council as at 31 December 2024 was Rs.226,518,124, which was an amount receivable from the estimated amount for the years 2022 to 2024.	Due to the negligence of lawyers, documents have been prepared and submitted to recover the deed stamp duty due on the deed documents.	Action should be taken to recover fees without delay.

## 3. Operational Review

### 3.1 Uneconomic Transactions

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Women's Day was celebrated with the participation of 250 women at a cost of Rs.360,606, of which Rs.14,000 was spent on arranging flowers from colored A4 paper..	Tthat Rs.12,000 had been spent on colored A4 paper and that the agenda for that day was printed and distributed using the remaining paper.	Expenditures that are effective in eliminating social poverty should be incurred.

### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Due to the demolition of the shops built by the council due to the widening of the road, shop rental income had been lost, and although businessmen had rebuilt the remaining plots of land belonging to the council, no steps had been taken to	Draft land rental agreements have been provided and arrangements are being made to enter into agreements accordingly.	Efforts should be made to collect revenue.



collect ground rental income for the land belonging to the council.

(b) An rates value of Rs.26,556,763 due from shops and markets had been cut off without the direct approval of the Ministry of Local Government for this purpose.	That the waiver was carried out through council conventional in accordance with the Urban Council Ordinance and the circulars of the Department of Local Government.	Relevant proper approvals must be obtained.
(c) Although the staff loan advances according to the financial statements were Rs.62,569,798, the balance in the relevant schedule was Rs.57,696,179, and action had not been taken to correct the difference of Rs.4,873,613.	These values will be corrected in the financial statements in the future.	The relevant correction should be made.
(d) Title deeds were not available for 21 lands used by the council with a revalued value of Rs.3,706,300,000.	That the process of take over all properties is being carried out expeditiously.	Take overs should be carried out promptly.
(e) Fines had also had to be paid as the revenue licenses for 6 vehicles owned by the council had not been obtained by the date of their expiry.	That will ensure that this does not happen in the future.	Licenses must be obtained on the due date.
(f) The balance of Rs.273,303,702 receivable as on 31 December 2024 included Rs.81,380,179 between 02 and 03 years.	That if the money is not received after checking, they will take steps to refer it to the General Assembly to recommend that it be cut off.	The receivable balance must be recovered.
(g) As at 31 December 2024, the balance of various creditors was Rs.219,979,131, of which Rs.52,119,724 was between 03 and 04 years.	It is also not possible to cut off the creditor's reserve as it may have to be paid in the future.	Creditor balances must be identified and settled.

### 3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
A JCB machine owned by the council has been inactive since 2021 and a tractor since 2022.	The JCB machine is undergoing repairs and spare parts for the tractor are not available.	Repairs and maintenance should be carried out without delay otherwise disposal should be carried out.

### 3.4 Procurement Management

Audit Observation	Comments of the Council	Recommendation
Although a master procurement plan should be prepared, including the expected procurement activities for a period of at least 03 years, in accordance with 4.2.1(a) of the Government Procurement Guidelines, the Council had not prepared such a plan.	A master procurement plan will be prepared in the future in accordance with the Government Procurement Guidelines.	The procurement plan should be prepared in accordance with the procurement guidelines.

### 3.5 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
The number of vacant employees in three types of posts was 92. The number of excesses employees arising from Public Administration Circulars No. 25/2014 and No. 29/2019 and the recruitments on 01 July 2024. was 46 and steps had not been taken to include those appointments in the approved staff.	No change in the approved staff can be made without the permission of the Chief Secretary.	The approved staff should review and work to approve the amendments.

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

Audit Observation	Comments of the Council	Recommendation
The action plan prepared by the Council had not been prepared in accordance with the Public Finance Circular PEP/RED/01/04/2014/01 dated 17 February 2014.	That the budget estimates and future action plan will be prepared in accordance with the by-laws imposed in accordance with the circular.	The action plan should be prepared in accordance with the circular.

## 4.2 Budgetary Control

### Audit Observation

Due to non-performance of the expected tasks, an estimated provision of Rs.66,071,996 remained.

### Comments of the Council

An amount of Rs.100 is allocated as a token provision because it is not possible to say with certainty whether the expenditure will be incurred in the relevant year or not. However, it is an expenditure that is expected to be incurred.

### Recommendation

The budget document should be used as a control tool.