

Kuliyapitiya Urban Council -2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kuliyapitiya Urban Council for the year ended 31 December 2024 comprising the statement of Balance sheet as at 31 December income and expenditure account, 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, sub section 181(1) of Urban Council Ordinance (Chapter 255). 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 Kuliyapitiya 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

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 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 include 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 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 Generally Accepted Accounting Principles

Audit Observation	Comments of the Council	Recommendation
As of December 31st of the year under review, the Council was in the process of handling 05 cases and this had not been disclosed in the financial statements. As of December 31st of the year under review, Rs. 136,000 had been paid as legal fees from the Council fund for these cases.	That will work to disclose this in future financial statements.	All events relevant to the existence of the entity must be disclosed in the financial statements.

1.6.2 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	As at 31st December of the year under review, the revalued value of the tractor trailer and the excavator were Rs. 800,000 and Rs. 2,500,000 respectively, but they were recorded as Rs. 400,000 and Rs. 3,850,000. Accordingly, the value of the motor vehicle account was overstated by Rs. 950,000.	That will work to correct it in the future.	The correct value of assets must be accounted for.
(b)	Vehicles worth Rs. 662,000 recorded in the fixed assets register as at 31st December of the year under review had not been included in the financial statements.	It will be correct it in the future.	All assets must be shown in the financial statements.
(c)	As at 31st December of the year under review, assets of Rs. 3,733,695 in the fixed assets register had not been accounted for under property, plant and equipment.	It will be to correct it in the future.	Financial statements should be prepared accurately.

(d)	Although the outstanding loan installments and interest payable to the Local Loans Development Fund as at 31st December of the year under review were Rs. 141,257,101, it was recorded as Rs. 138,068,808, which is Rs. 3,188,293 less than the amount accounted.	That Rs. 3,188,293 has been under-accounted.	Must be accounted for correctly.
(e)	Although the interest for the year under review for the Local Loans Development Fund was Rs. 42,855,935, it was accounted as Rs. 41,411,444, an under stated of Rs. 1,444,491.	It will be to correct it in the future.	Must be accounted for at the correct value.
(f)	Although the court fine income as of December 31 of the year under review was Rs. 99,000, it was recorded as Rs. 297,031, which is Rs. 198,031 more than the amount accounted.	It is being to to correct it.	Income must be accounted for at the correct value.
(g)	Although the revaluation loss on motor vehicles and carts during the year under review was Rs. 245,290, it was included in the financial statements as a profit of Rs. 704,100 in the Motor Vehicles and Carts Account and Contribution from Income to Capital Account.	It is being to to correct it.	The revalued amount must be accounted for correctly.
(h)	As at 31 st December of the year under review, three-wheeler parking revenue receivable of Rs. 137,100 had not been accounted for and rental vehicle parking fee revenue of Rs. 151,950 had been under-accounted.	It is being to to correct it.	Income must be accounted for correctly.
(i)	Although the entertainment tax income for the year under review was Rs. 742,529, it was recorded as Rs. 549,120, an understatement of Rs. 193,409, and the entertainment tax income receivable of Rs. 182,909 had not been recognized as current assets.	It is being to to correct it.	Income must be accounted for correctly.
(j)	A detailed balance sheet had not been presented so that the income and expenses of the year under review could be identified separately.	That will work to correct it in the future.	The trial balance should be prepared accurately.
(k)	Although the income of the crematorium in the year under review was Rs. 3,963,045, it was accounted as Rs. 2,089,600, which was Rs. 1,873,445 less than the income.	That will work to correct it in the future.	Income must be accounted for correctly.

1.7 Non- Compliances

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

All observations related to Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka 570 & 571	Action had not been taken to settle 314 deposits amounting to Rs. 4,911,712, which were overdue for 02 years, in accordance with the financial regulations.	That steps will be taken to release the deposits that can be released in the future.	Financial regulations must be followed.
(b)	Ministry of Finance and Mass Media Guideline No. 04/2018 dated 31st December 2018			
(i)	02nd paragraph	Although the value of government non-financial assets should be accurately calculated when reporting them, assets other than the council's vehicles had not been revalued.	All vehicles have been revalued and other fixed assets have been sent for revaluation.	Circular instructions should be followed to show the fair value of fixed assets in the financial statements.
(ii)	03rd and 04th paragraph	Although non-financial assets with a value of Rs. 5000 or more should be identified when reporting non-financial assets, the Council had recorded 68 items of furniture and fixtures and 07 items of machinery with a value of less than Rs. 5000 as non-current assets.	That fixed assets worth less than Rs. 5000 will be removed from the records and steps will be taken to maintain the records.	Financial statements should be prepared in a manner that accurately reflects the financial position of the organization.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue (Defecit) of the council for the year ended 31 December 2024 amounted to Rs. 14,212,876 as compared with excess of recurrent expenditure over revenue (Defecit) amounted to Rs. 39,671,397 in the preceding year.

2.2 Revenue Administration

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

The information submitted by the Secretary of the Council regarding estimated income, billed income, collected income and arrears of income for the year under review and the previous year is given below.

2.2.2 Performance in Revenue Collection

2024 Year					2023 Year				
	Source of income	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.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
(i)	Rates and Taxes	28,625	28,947	30,067	24,932	28,675	28,288	25,737	28,860
(ii)	Rent	30,530	29,532	24,736	4,555	216,636	25,075	24,524	3,609
(iii)	License fees	20,920	24,261	21,559	-	17,930	21,087	3,907	-
(iv)	Other Revenue	170,207	189,169	151,729	17,977	210,903	138,079	154,288	13,270
	Total	250,282	271,909	228,091	47,464	474,144	212,529	208,456	45,739

Audit Observation

Comments of the Council

Recommendation

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| (a) | As at the beginning of the year under review, Rs. 45.74 million of the outstanding revenue and Rs. 228 million of the billed revenue for the year of Rs. 242.99 million had been recovered. As at 31 December of the year under review, Rs. 47.46 million remained arrears. | That steps will be taken to recover the arrears of revenue in the year 2025. | Action should be taken to recover arrears of revenue without delay. |
| (b) | Although the revenue arrears as of December 31 should be obtained by adding the last arrears of the previous year to the billed revenue of the year under review and deducting the revenue collected, it was observed that there is a contradictions between these figures according to the data presented. | That the contradictions in the information presented will be corrected and presented. | Correct data must be submitted. |

(c) **Rates and Taxes**

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| (i) | The assessment deficit as of December 31st of the year under review was Rs. 24,932,458, of which there was a balance of Rs. 20,445,409 between 01 and 05 years and a balance of Rs. 4,487,049 which had been arrears for more than 05 years. | That steps are being taken to recover the arrears of assessments. | Action should be taken to recover arrears of revenue without delay. |
| (ii) | The last tax assessment by the Urban Council was carried out in 2018, and due to the failure to carry out the tax assessment on time, the Council had lost an incalculable amount of assessment tax revenue due to the change in the current condition of the properties. | The Valuation Department has been requested to conduct the valuation in 2024. | According to the provisions of the Act, assessments and assessments must be carried out and collected once every 5 years. |

(d) **Rent**

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| The inn rent arrears balance as on 31st December of the year under review was Rs. 2,662,969 and no income had been received in cash during the year under review. | The inn has continuously informed the relevant institution in writing to collect the arrears of rent, and the urban Council has been informed that the necessary steps will be taken to pay the arrears after the management board of that institution is appointed. | Arrears of rent should be collected promptly. |
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(e) **Other Revenue**

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| The court fines and stamp duty due from the Chief Secretary of the Provincial Council and other authorities as at 31st December of the year under review were Rs. 80,700 and Rs. 5,010,670, respectively. | It is scheduled to be received in 2025. | Steps should be taken to bring in the relevant funds. |
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3. Operational Review

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 Performing of Functions Enacted by the Act

	Audit Observation	Comments of the Council	Recommendation
(a)	Under Section 157 of the Urban Council Ordinance, by-laws could be enacted to carry out key matters, but as of December 31, 2024, the council had enacted by-laws for only 04 matters.	37 by-laws have been adopted and the council has enacted 04 by-laws. In addition, the Mobile Trading By-law, the Cemeteries and Crematoriums By-law, and the Weekly Market By-law have been drafted.	Action should be taken to streamline the affairs of the council by enacting by-laws.
(b)	During the year, 1,655 tons of biodegradable waste were collected, 58,885 kilograms of compost fertilizer were produced, 35,430 kilograms of which were sold, generating an income of Rs. 608,100, and 22,989 kilograms of non-biodegradable waste generated an income of Rs. 508,514. During the year under review, an expenditure of Rs. 20,774,085 was incurred as recurring expenditure for solid waste management.	Solid waste management can address adverse environmental impacts as well as social consequences. Accordingly, this project, which is not solely for profit, is an environmentally friendly project and therefore has incurred expenses in excess of its income.	Efforts should be made to increase the council's income by streamlining waste management and creating a healthy environment for the people.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The value of 04 accounts receivable as at 31st December of the year under review was Rs. 32,400,542, of which Rs. 27,913,493 related to the period between 1 and 5 years and Rs. 4,487,049 related to more than 05 years.	That the deposits that have the potential to be released and turned into income will be released and turned into income in the future.	Action should be taken to recover the arrears of revenue.
(b)	The total value of 11 accounts payable as at 31st December of the year under review was Rs. 852,040,467, of which Rs. 844,838,794 were due between 1 and 5 years and a balance of Rs. 7,201,673 was due more than 5 years ago.	Since the expenditure credit and industrial credit have not exceeded two years, the relevant payments will be made within this year.	Action should be taken to investigate the existence of outstanding balances and to free oneself from obligations.

3.3 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	02 vehicles worth Rs. 62,424,874 had not been included in the fixed assets register.	That the vehicles indicated as not being included in the fixed assets register will be included in the fixed assets register.	All assets must be documented.
(b)	The tractor, valued at Rs. 50,000, and the double cab vehicle, valued at Rs. 212,000, were physically absent.	That work will be done to correct the documents in the future by checking them.	The existence and security of the assets owned by the council must be checked and any deficiencies must be reported to the auditor.
(c)	Although it is the responsibility of the Council to formulate and implement a program to protect the long-term existence of the buildings and assets owned by the Council in a timely manner, due to lack of attention to it, the Council had not taken proper action by the end of the year under review regarding the damage caused to the structure of the office premises and the building housing the public market.	In this regard, the risk assessment regarding the complete maintenance is currently underway, reports are being obtained from the relevant institutions, and further work is being carried out.	A program should be developed for the security of the council's buildings.
(d)	Due to the lack of timely repairs to the Kuliyaipitiya town Hall, the lower level of the inner and outer pillars of the City Hall were vertically cracked and swollen, the walls of the hall were cracked and damaged, parts of the ceiling of the roof were missing and the chairs in the balcony were dusty and not properly maintained. As a result, it was not possible to fulfill its functions as a main source of income for the City Council, as well as to provide an important service related to the provision of public utilities to the residents of the City Council limits.	The internal and external cracks and damages of the Kuliyaipitiya Town Hall have been repaired. An estimated cost of Rs. 11,007,184 has been estimated for the remaining work and has been submitted to the Regional Coordination Committee for funding.	Efforts should be made to renovate the town hall and make it a source of maximum revenue.
(e)	Action had not been taken to acquire the assets of the fire engine, 02 water bowsters, trailer and Agrimech tractor with grass cutting attachment by the end of the year under review.	Since there are no numbered books for the water bowser 02, the trailer and the lawn mower with the Agrimech Jet 5 hand tractor, arrangements will be made to register them in the future after inquiring	Action should be taken to formally seize assets.

with the Local Government Commissioner (Northwest).

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| (f) | Fixed assets value Rs. 13,649,286 had not been included in the fixed assets register and updated. | That steps will be taken to correct and keep fixed asset records up to date. | Fixed asset records should be corrected and accounts prepared accordingly. |
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3.4 Delays in Fullfilling Activities

Audit Observation	Comments of the Council	Recommendation
(a) Although the Kuliyaipitiya Urban Council had entered into an agreement with a contractor on 20 July 2020 for the construction of the new public market and multi-purpose building for an amount of Rs. 996,631,284, the work had not been completed by 01 May 2025. The following matters were observed in this regard. i. The loan was obtained from the Local Loans Development Fund in 2019 and there was a one-year delay in entering into an agreement with the contractor by July 20, 2020. ii. An acceptable feasibility study report had not been prepared and a feasibility study report had been submitted only with the intention of obtaining a loan from the Local Loans Development Fund. iii. When the Council entered into an agreement with the relevant contractor company on 20 July 2020, the Covid crisis had arisen and the consultancy firm had failed to identify the potential impacts and price fluctuations. iv. The consultancy company had failed to prepare the relevant plan after considering the funding arrangements and considering the phased planning of the building, as it planned to install a centralized air conditioning system without considering the funding arrangements and thus the entire	It is stated that the work has been done based on the instructions provided by the Consulting Engineers and Construction Industry Development Authority (CIDA), and final decisions have not yet been made regarding the relevant agreements, and that it is expected to take further action according to the recommendations provided.	Funds should be utilized effectively and work should be done to achieve the expected objectives.

building would be operational after completion of the work.

- v. The consulting firm had withdrawn from its consulting work by January 22, 2023 and the Council had failed to take the necessary legal action in accordance with clause 2.10 of the agreement dated October 07, 2019.

(a)	Work on 16 projects worth Rs. 537,882,191 planned to be completed in the year under review had not been completed and Rs. 3,941,259 had been spent on 05 projects that were not planned to be completed in the year under review.	These tasks were not carried out due to financial constraints, lack of Governor's approval, lack of need, and incomplete completion of the multi-purpose building.	A feasibility study should be conducted, projects should be selected, and project activities should be implemented with supervision.
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3.5 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) There were 58 vacancies and 01 surplus in the approved staff of the Council and recruitment had not been made for the vacancies.	Since recruitment for senior tertiary and secondary positions is carried out by the North Western Provincial Public Service Commission, the cut-offs have been forwarded with recommendations.	Steps should be taken to fill vacancies.
(b) As of December 31st of the year under review, there was an uncollectible employee loan balance of Rs. 326,515 relating to 08 employees.	That steps will be taken to recover the relevant loan.	Arrears of employee loans should be recovered.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
There was a variation of 3 percent to 100 percent between the estimated and actual revenues of 05 revenue items and more than 9 percent between the estimated allocations and actual expenditures of 07 expenditure items in the year under review. Accordingly, the budget document had not been utilized as an effective management control instrument.	Revenue has increased due to the fee revision.	Estimates should be prepared realistically.

4.2 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
34 development programs for which provisions of Rs. 14,330,000 had been allocated during the year under review to achieve sustainable development goals and targets had not been implemented.	Although funds have been allocated in 2024 to achieve sustainable development goals, the management committees have decided to carry out only essential programs in light of the financial crisis facing the Kuliyaipitiya Urban Council.	Goals should be set based on need.