

Kahatagasdigiliya Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kahatagasdigiliya Pradeshiya Sabha for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, Comprehensive Income Statement/ Statement of changes in equity / net assets, Cash Flow Statement 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 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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 Kahatagasdigiliya Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

1.2 Basis for Qualified Opinion

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standard 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha 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 Standard 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 Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha ;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha 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 Pradeshiya Sabha 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) The purchase of property, plant and equipment during the year under review amounting to Rs.4,013,378 was over recognized under investing activities in the statement of cash flows.	Will correct as instructed.	The correct value should be accounted for.
(b) Depreciation of Rs.234,799 related to the year under review was not accounted for.	Accept.	Depreciation must be properly accounted for.
(c) Although the decrease in receivables amounting to Rs.9,376,932 was a cash inflow in the year under review, it was shown as a cash outflow in the cash flow statement.	Action will be taken as per the instructions.	Cash inflows should be accurately reflected in the cash flow statement.
(d) Although the increase in payables amounting to Rs.4,317,768 was a cash inflow in the year under review, it was shown as a cash outflow in the cash flow statement.	-Do-	-Do-

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| (e) | The value of work done amount of Rs.1,861,157 certified during the year under review for the renovation of Kahatagasdigiliya weekly market under the LDSP project was not capitalized. | Not recognized as an asset, as there are no final bills. | Expenditure must be capitalized as it is certified. |
| (f) | Interest receivable for the year under review on fixed deposits was over-accounted by Rs.185,397. | Accept. | The correct value should be accounted for. |
| (g) | The value of the water bowser and the building amount of Rs.14,620,209 received as capital grants in the year under review, was recognized as capital expenditure grants received in the investment activities in the cash flow statement. | -Do- | The cash flow statement should show only cash inflows and outflows. |
| (h) | Discounts of Rs.568,253 given in the year under review were shown in the operating profit as well as under operating activities in the cash flow statement. | -Do- | It should be mentioned only at the appropriate place in the cash flow statement. |
| (i) | The amount of Rs.8,611,272 was not shown under receivables from exchange transactions and receivables from non-exchange transactions in the statement of assets and liabilities of the year under review. | It is mentioned in the copy of the financial statements of the Sabha. | Financial statements must be presented accurately for audit. |
| (j) | Details of employee security deposits were not disclosed in a note to the financial statement. | Only the Disclosure is sufficient. | Details should be presented in notes. |

1.7 Non- Compliances

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

The instances related to non-compliances with Laws, Rules, Regulations and Management decisions are shown below.

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.571	18 tender security deposits of Rs.262,207 related to the period from 2009 to 2019 had not been settled.	Accept.	Actions should be taken to credit to the state revenue.
(b)	Asset Management Circular No. 05/2020 dated 02 October 2020	Action had not been taken to disposed of regarding 04 vehicles with a value of Rs.3,901,818 and 06 vehicles with a value of Rs.1,950,000, which have not been used for more than 05 years.	-Do-	Action should be taken as per the Public Finance Circular.
(c)	Section 14 of the Local Government Circular dated 31 October 2017 of Local Government Commissioner of the North Central Provinces.	There was no provision in the building lease agreements to revise the rent once in 03 years according to the assessment of the government assessors and to increase the rent by a minimum of 05 per cent per year or more than that by council decisions.	Although assessed, reports have not been received.	Action should be taken as per the Local Government Circular.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.14,041,879 as compared with the excess of expenditure over revenue amounted to Rs.7,583,201 in the preceding year.

2.2 Revenue Administration

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

Information 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

	Source of Revenue	2022				2021			
		Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
		Rs.	Rs.						
(i)	Rates and Taxes	2,263,184	2,166,906	2,082,208	2,151,947	2,362,584	2,173,731	1,464,592	2,067,249
(ii)	Rent	16,973,465	10,959,518	10,578,749	4,387,970	16,556,023	11,703,392	9,298,421	4,007,201
(iii)	License Fee	1,051,200	885,754	885,754	-	710,050	719,628	719,628	-
(iv)	Other Revenue	8,378,225	7,201,191	6,355,817	4,326,233	6,572,443	4,850,824	4,850,824	3,480,859
		----- 28,666,074 =====	----- 21,213,369 =====	----- 19,902,528 =====	----- 10,866,150 =====	----- 26,201,100 =====	----- 19,447,575 =====	----- 16,333,465 =====	----- 9,555,309 =====

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

	Audit Observation	Comments of the Council	Recommendation
(a)	Rates and Taxes		
(i)	The rates and taxes had been collected according to the assessment of 2016 and the arrears rate and taxes as at 31 December 2022 was Rs.2,151,947.	Letters have been submitted for obtaining fresh assessment.	Obtaining new assessments should be expedited.
(ii)	The receivable amount for 49 billboards relating to the years 2020, 2021 and 2022 was Rs.505,350.	Action will be taken to recover.	Action should be taken to recover.
(iii)	The arrears of garbage tax as on 31 December of the year under review was amounted to Rs.501,578.	Accept	-Do-

(b) Rent

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| (i) | The Sabha had not taken action in the year under review to recover Rs.108,250 due from the members for a period of 02 years for the rental of the JCB machine and motor grader belonging to the local council. | Legal proceedings have been initiated. | Legal proceedings should be expedited. |
| (ii) | Action had not been taken to recover arrears rent income of Rs.6,107,007 as at 31 December of the year under review. | Action will be taken to recover. | Action should be taken to recover. |

(c) Other Revenue

Court fines of Rs.992,328 and stamp duty of Rs.1,871,600 due from the Chief Secretary of the Provincial Council and other authorities as on 31 December 2022.	A sum of Rs.2,776,584 have been received from the Chief Secretary in the year 2022.	Action should be taken to recover.
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3. Operational Review**3.1 Performance of functions assigned by the Act**

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 3 of the Pradeshiya Sabha Act are shown below.

Maintaining Slaughterhouses**Audit Observation**

In terms of By-law 09 Section 32 of the By-law Gazette Notification dated 23 August 1988, the public health inspector authorized to inspect slaughtered animals at the approved slaughter houses in the Sabha area, had not charged a fee of Rs.10 per 01 kg of meat for using the official seal of the council

Comments of the Council

It should be correct as Section 9 of By-law 32.

Recommendation

Action should be taken as per the section of the by-law.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Due to the lending of machines and vehicles of the local council without recovering of fees, a sum of Rs.218,242 was due on 31 December of the year under review.	Action will be taken to recover.	Action should be taken to recover arrears.

3.3 Operating Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Although tickets were issued for Rs.300 per person for participating in the fun items of the Nikini Mela festival held from 12 to 21 August 2022, the Sabha had not taken steps to collect entertainment tax for that.	As there is no ticket on entry to the fairgrounds, no entertainment tax is charged.	As ticket was issued for participating in the entertainment items, entertainment tax should be levied on the sale of those tickets.

4. Accountability and Good Governance

Environmental Issues

Audit Observation	Comments of the Council	Recommendation
Only the garbage collected from the weekly market was used for the production of organic fertilizers and the remaining garbage was burned and buried in the open ground of the yard.	Unusable materials are burned and buried.	Non-biodegradable waste should be disposed of in such a way as not to harm the environment.