

Kobeigane Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kobeigane Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 of the National Audit Act No. 19 of 2018 and Sub-section 172(1) of the Pradeshiya Sabha Act, No. 15 of 1987. 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 Kobeigane Pradeshiya Sabha as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

A qualified opinion on financial statements will be expressed based 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 Principles, and for such internal control as management determines 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 Sub-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 to be prepared of the Pradeshiya Sabha.

1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Pradeshiya Sabha's 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

The National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- The financial statements of the Pradeshiya Sabha are consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The following recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit observations related to the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit observation	Comments of the Sabha	Recommendation
(a) Machinery and equipment worth Rs.25,365 and the van worth Rs.236,000 had not been capitalized in the year under review.	That the corrections is done by journal entries.	the accounting should be done correctly.
(b) As on 31 December of the year under review, the advance balance had been overstated by Rs.102,748.	- do -	- do -

1.6.2 Unreconciled Control Account

Audit Observation	Comments of the Sabha	Recommendation
There was a total difference of Rs.24,238,819 between the financial statements of 9 accounting subjects and the schedules.	That the corrections will be made as per schedule in preparation of financial statements as at 31 December 2023.	Accounts should be prepared correctly.

1.7 Non-compliances

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

The following observations are made for Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) 1988 Pradeshiya Sabhas (Finance and Administration)			
(i) Rule 59 to Rule 66	At the beginning of a year, a survey of industries in the council area had not been done and included in the industrial tax register.	That steps will be taken to include all industries in the list.	The relevant rules should be followed.
(b) Financial Regulations 571 of the Democratic Socialist Republic of Sri Lanka	The value of 04 deposits which were deposited for more than 2 years was Rs. 277,657 had not been regulated.	That necessary arrangements are made to credit the income.	Actions Should be done in accordance with the Code of Financial Regulations.
(c) Sections I and II of Paragraph 03 of Circular No. 2019/02 of the Commissioner of Local Government dated 10 January 2019	Although the contractual period of shop leases should be up to 03 years based on a council decision and from 03 to 30 years with the approval of the minister in charge, the lease period for mall shops had not been mentioned in the contract agreements.	That the agreement will be rectified.	Actions should be done as per the said circular.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over expenditure of the Sabha for the year ended 31 December 2022 was Rs. 17,294,652 as compared with the corresponding revenue over expenditure of Rs. 3,241,550 of the preceding year.

2.2 Control of Revenue

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

Below is the information about the estimated revenue, billed revenue and arrears of revenue submitted in relation to the year under review and the previous year.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as on 31 December (with previous year's arrears)	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as on 31 December (with previous year's arrears)
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
i. Rates and Taxes	749	749	749	122	749	749	460	753
ii. License Fees	10,000	1,000	643	357	890	989	989	-
iii. Rental	700	700	104	596	141	141	580	439
iv. Other Revenue	22	22	15	43	22	22	65	42
	11,471	2,471	1,511	1,118	1,802	1,901	2,094	1,234

2.2.2 Performance of Collection of Revenue

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
(i) The rates and tax assessment should be done from the valuation department once in 05 years, but the local council is currently charging the rates and tax based on the 2015 assessment.	That the assessable properties related to the assessment zones belonging to the council have been identified and gazetted notices have been published and an application has been made to the valuation department for assessment.	Assessable property should be assessed in time and rates and tax should be charged.
(ii) Out of the total arrears rates and tax balance of Rs.681,669, Rs.229,788 which is 3 percent was over 5 years.	The answers had not been provided.	Arrears rates and tax should be charged.
(b) Acreage Tax		
As on December 31 of the year under review, a balance of Rs.51,525 had not been recovered from 273 properties in 16 domains owned by the council.	Actions have been taken to recover the arrears of acreage tax.	Acreage tax arrears should be collected quickly.

3. Operational Review

3.1 Performance of functions assigned by the Act

Under section 3 of the Local Council Act, the matters observed regarding the regularization and control of matters of public health, public utility services and public roads, and the fulfillment of the duties of the council which should have been performed by the council are listed below.

Audit Observation	Comments of the Sabha	Recommendation
By-laws Under Section 126 of the Local Council Act, by-laws should have been enacted to fulfill 30 main issues, but by 31 December 2022, the by-laws had not been enacted.	That the draft prepared to enact the by-laws related to chicken cages has been forwarded to the Local Government Department.	The council should identify opportunities to generate income and establish by-laws.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
21 leasable assets for the year 2022 remained unused for revenue generation due to non-submission of bidders.	Agreed	The assets of the council should be utilized optimally.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The properties owned by the council were not properly assessed and the values entered in the books and the land and building survey had not been done on time.	That the actions had been taken to assess the relevant property	Proper valuation of property and building survey should be done in time.
(b) Although the council should maintain an up-to-date register containing all the information when providing income generating machinery and water bowsers to external parties, it had not been done so.	That the related documents are maintained properly.	Registers for income generating machines should be maintained up to date.
(c) Among the environmental permits issued during the year under review, environmental permits had been issued to a coir factory and a farm without the approval of the Public Health Inspector.	That actions are taken to correct the deficiencies pointed out.	An internal control system related to the issuance of environmental permits should be formalized.

3.4 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
At the end of the year under review, There was a non-deductible balance loan of Rs.149,992 related to an employee in the employee loan departmental balance.	That the officer related to this has been temporarily suspended and subjected to a disciplinary investigation.	Actions should be done to collect employee loans properly.

3.5 Asset Management

Audit Observation	Comments of the Sabha	Recommendation
(a) 25 assets that were being maintained by the council had not been taken over by the council.	That the necessary activities are being carried out to take over the relevant assets.	Arrangements should be made to hand over the assets to the council as soon as possible.
(b) Security fences had not been built around the land and buildings to ensure the safety and existence of the assets owned by the council and the land and buildings owned by the council had not been done an annual verification.	Security fences are being applied on the lands identified as essential and about 30 assets have been identified after carrying out a physical verification.	An adequate control system should be developed to protect the assets of the council.
(c) Although the council had decided to collect the income of the coconut productive land owned by the council without leasing them, the council had lost the income it should have received due to not properly identifying the coconut productive land owned by the council and collecting the productive income properly. Also, based on the decision of the council, no development work was done on the land held by the council for the purpose of development without leasing the coconut land owned by the council.	In the future, coconut producing lands will be properly identified and revenue will be collected properly.	Arrangements should be made to get the income due from the assets properly.

3.6 Idled assets

Audit Observation	Comments of the Sabha	Recommendation
The braille machine which had been purchased for the waste management center at a cost of Rs.1,275,000 remained unused.	Since the electricity connection of the Sabha Public Library is a three-phase electricity connection, arrangements have been made to install and use the Braille machine at that place.	The assets of the council should be utilized optimally.

4. Accountability and good governance

Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
In the reviewed year, a variation of 25 to 169 percent between the estimated and actual income of 04 revenue subjects and a variation of 14 to 72 percent between the estimated provision and the actual expenditure of 05 expenditure subjects was observed, so the budget had not been used as an effective management control tool.	That the issues pointed out will be resolved.	Efforts should be made to realistically prepare the budget and utilize the allocations optimally.