

Kurunegala Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kurunegala Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, statement of changes in equity, 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 the 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 Kurunegala Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities

1.2 Basis for Qualified Opinion

I express qualified opinion 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 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 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 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 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 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 Sabha	Recommendation
(a) Industry debtors amounting to Rs.618,556, industry creditors amounting to Rs.1,309,569, project creditors amounting to Rs.1,573,371, Ceylon Telecom creditors amounting to Rs.1,992,698 and reimbursement of salary receivables amounting to Rs.8,838,230 had been overstated as at 31 December 2022 .	Actions will be taken to be corrected by financial statements 2023 .	It should be accurately accounted for.

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| (b) | Building development expenses amounting to Rs.1,104,829, equipment expenses amounting to Rs.1,113,050 and office equipment and furniture and fixtures amounted to Rs.17,869,549 and installation of air conditioners in the new office amounted to Rs.787,958 of the Sabha in the year under review had not been capitalized . | -do- | -do- |
| (c) | The fixed deposits interest income had been overstated by Rs.32,990 and the interest received amounted to Rs. 2,048,732 had been accounted for as receivables in the year under review. | Actions will be taken to deduct the fixed deposit interest income of Rs. 32,990 of the year under review and to be corrected through financial statements | -do- |
| (d) | Domestic credit development loan balance of the statement of financial position amounted to Rs.61,706 had been understated by Rs. 61,706. | Actions will be taken to correct by the Financial Statements 2023 . | -do- |
| (e) | The income received in advance in the previous year relating to the year under review amounted to Rs.72,377 had been credited to the suspense account without being brought to accounts as income of the year. | The income received in advance amounted to Rs. 72,377 by rectifying the opening balances for which error in credit to the suspense account by the financial statements 2023 . | -do- |

- (f) The Sabha had prepared the cash flow statement of the year under review in indirect method and the following matters were observed during its inspection.
- (i) Overstating of surplus on recurrent expenditure before tax and interest according to the income expenditure statement of by Rs.4,249,240, understating of the increase in debtors by Rs.41,231,165, understating of decrease in employee debt by Rs. 226,255, overstating of decrease of creditors by Rs. 36,796,499 and overstating of increase in deposit payable by Rs. 47,097,048 had been adjusted. Actions will be taken to correct. -do-
- (ii) Although the increase in staff debt for the year should be reduced by Rs. 113,232 according to the statement of financial position, it had been added as Rs.113,023 in the cash flow statement. -do- -do-
- (iii) Although the decrease of creditors should be reduced by Rs.87,914,189 according to the statement of financial position, it had been reduced as Rs.124,710,688 in the cash flow statement. -do- -do-

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| (iv) | Although the increase in repayable deposits amounted to Rs. 941,013 should be added as per the financial statement of the year under review, the increase in deposits payable had been reduced by Rs.46,156,035 in the cash flow statement. | -do- | -do- |
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1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
(a) There was a difference of Rs.220,437,987 between the balances shown in the financial statements and the balances shown in the cash book for 02 bank accounts as at 31 December of the year under review.	This will be corrected by the financial statements of the year 2023.	Actions should be taken to identify the difference accurately and accounted for.
(b) Although the value of library books was Rs.13,796,273 as per the financial statements as at 31 December of the year under review, there was a difference of Rs. 4,259,900 between the balances related to 08 libraries and the balances shown in the Board of Survey Reports.	-do-	-do-
(c) There was a difference of Rs.252,332,289 according to the schedule and ledger accounts presented with the accounts in relation to 09 accounting items as at 31 December of the year under review.	Actions will be taken to rectify the defect in future.	The balances shown in the financial statements should be the same as the balances in the schedules.

1.6.3 Suspense Accounts

Audit Observation	Comments of the Sabha	Recommendation
A suspense account had been shown with a credit balance of Rs.56,381 in the financial statements of the year under review.	This has arisen due to accounting deficiencies. Actions will be taken to rectify by the financial Statements 2023 .	The balance should be identified and accurately accounted for.

1.7 Non –compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations Management Decisions etc.	Non-compliance	Comments of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka –			
(i) F.R. 104 (3)		Sending preliminary reports of the vehicle accidents that occurred for 05 vehicle in the year 2022 have been missed and actions will be taken to submit preliminary reports on every incident in future regarding every accident.	Actions should be taken in terms of aforementioned Financial Regulations.
(ii) F.R. 571 (2)	Mixed deposits for more than 02 years amounted to Rs. 8,502,693 had not been taken to income.	That the activities of making aware of the depositors through letters are currently being carried out for release of deposits for more than 02 years.	Actions should be taken in terms of aforementioned Financial Regulations.

(b) North West Local
Government
Department Circular
No. 2015/01 dated 02
November 2015

(i) Section 3 (I)	A sum of Rs.200,000 had been paid to the athlete who won the weightlifting bronze medal in the Commonwealth Games beyond the maximum expenditure limit of Rs.15,000 .	The fact pointed out by the audit is accepted.	Actions should be taken in terms of aforementioned Circular.
(ii) Section 3 (II)	A sum of Rs.600,000 had been given to 02 temples, as Rs. 300,000 each, exceeding the maximum expenditure limit of Rs. 20,000 .	-do-	-do-
(iii) Section 3 (III)	Sum of Rs. 150,000 had been paid for the youth of Ethugalpura organized by the Kurunegala District Committee exceeding the maximum expenditure limit of Rs.10,000 .	-do-	-do-
(iv) Section (IV)	Housing assistance of Rs.100,000 had been provided to a low income earner who exceeded the maximum expenditure limit of Rs.25,000 .	-do-	-do-

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2022 was Rs. 295,226,983 and the income exceeding the recurrent expenditure of the preceding year was Rs. 153,025,837 .

2.2 Financial Control

	Audit Observation	Comments of the Sabha	Recommendation
(a)	A fixed deposit valued at Rs.30,000,000 held by the Sabha had been transferred to the General Fund without obtaining the Sabha approval.	The manner of expenditure will be investigated and submitted in the future.	Actions should be taken in terms of a proper financial management.
(b)	Actions had not been taken to settle 04 cancelled cheques which were issued but not presented to the bank totalled to Rs. 37,677 .	The necessary arrangements will be made to settle in the future.	Arrangements should be made to settle.

2.3 Revenue Administration

2.3.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

The estimated income, billed income, collected income and arrears of revenue as per the information presented by the Chairman for the year under review and the previous year are as follows.

Source of Revenue	<u>2022</u>				<u>2021</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December
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	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	16,860	19,241	16,465	12,532	11,796	12,332	8,903	13,186
Rents	2,460	1,855	1,861	52	2,650	1,863	1,364	556
License Fees	1,975	2,781	2,781	-	1,701	2,290	2,290	-
Other Income	145,328	183,149	275,876	124,252	142,420	286,355	194,220	216,979
Total	-----	-----	-----	-----	-----	-----	-----	-----
	166,623	207,026	296,983	136,836	158,567	302,840	206,777	230,721
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2.3.2 Rates and Taxes

	Audit Observation	Comments of the Sabha	Recommendation
(a)	A sum of Rs. 5,490,454 out of the arrears of Rs.9,757,452 at the beginning of the year under review and a sum of Rs. 7,042,802 out of the billings for the year amounted to Rs.19,241,457 had not been recovered.	Out of the arrears of rates and taxes related to the year 2022, an amount of Rs.2,597,519 has been collected by 30.04.2023 from a sum of Rs. 19,241,457 pertaining to the current year and arrears of Rs. 2,597,519 .	Actions should be taken to recover arrears and billed income.
(b)	There was an acreage tax arrears of Rs.510,745 as at 31 December of the year under review.	It is expected to reduce the acreage tax arrears in the future.	Actions should be taken to recover the arrears.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Because of the arrangements were not made to lease out 19 assets owned by the Sabha in the year 2022, the sabha had lost an income of Rs.1,064,875 .	Nineteen assets owned by the Sabha could not be leased in the year 2022 .	Actions should be taken to lease out properties owned by the Sabha.
(b)	There were 412 three-wheelers in the 55 three-wheeler associations registered in the area according to the survey conducted on three-wheelers and the charge of Rs. 242,200 had not been recovered from 346 three-wheelers out of these.	Out of the amount of Rs.242,200 currently to be collected an amount of Rs. 7000 has been collected from 10 three-wheelers as arrears by now and the remaining arrears amount will be collected during this year .	Actions should be taken to recover outstanding fees.

3.2 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
There were 26 playgrounds within the Sabha area and actions had not been taken to be taken over 16 sports grounds out of which, even by the year under review .	The necessary arrangements are being made to take over 16 sports grounds out of the 26 sports grounds in the Sabha area.	Actions should be taken to acquire by taking actions in accordance with Section 2.4.1 of the Confiscated Land Ordinance No. 08 of 1947.

3.3 Idle and Underutilized Assets

Audit Observation	Comments of the Sabha	Recommendation
The road roller owned by the Sabha had remained in idle since 2016 without being used.	Due to the largeness of this road roller, that has not yet been utilized on the problematic situation of using it for Sabha roads.	Arrangements should be made for release to another institution or for disposal.

3.4 Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
The work on 03 development projects proposed to be completed by the Sabha funds in the year under review valued at Rs.3,692,355 had not been commenced.	The construction was delayed.	Efforts should be made to make maximum use of the money allocated in the Annual Budget