

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kelaniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement , 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 Kelaniya Pradeshiya Sabha as at 31 December 2021, 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 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 include 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.

Reference No.	Observation	Recommendation
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1.6.2 (a)	An advance account had not been maintained for employee loans in accordance with the rules No. 83 (ii) on accounting matters related to the financial administration of the Western Province Pradeshiya Sabhas imposed by the special gazette No. 2155/8 and dated 24 December 2019	Arrangements should be made to maintain an advance account.
1.6.2 (e)	Even though a total of Rs.2,233,236 had been disposed from fixed assets as buildings valued at Rs.189,000, machines valued at Rs.305,389, computers valued at Rs.973,096, office equipment valued at Rs.674,351, timber valued at Rs.52,625, roads and bridges valued at Rs.38,775, due to the fact that Rs. 254,200 which should be disposed as depreciation had not been adjusted, the surplus had been understated by that value. Further, the depreciation value had not been adjusted to the disposal account and the provision for depreciation account.	Actions should be taken to properly adjust the provision for depreciation related to the disposable assets as well.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) The depreciation to be made in the year 2021 with the rate of 10 per cent was Rs.3,009,294 for the capital grant which were received as capital grant in the year 2020 amounting to Rs.30,092,938 for the roads, culverts and bridges built. However, only Rs.1,979,610 were shown as transfers from the government for non-recurrent expenses under the statement of comprehensive income. Accordingly, the surplus had been understated and the capital grants had been overstated by Rs.1,029,684 each.</p>	<p>This will be corrected from the final account 2022.</p>	<p>It should be properly accounted for.</p>
<p>(b) Although the capital grant of 2020 should not be depreciated in that year, a sum of Rs.5,817,662 had been accounted Rs.30,092,938 of received in the year for as depreciation, due to failure to rectify the said error during the had been overstated and the capital year under review, the accumulated fund balance grant by Rs.5,817,662 . balance had been understated</p>	<p>Actions will be taken to correct from the final account 2022</p>	<p>It should be accurately accounted for.</p>
<p>(c) Although it was stated that assets are not depreciated in the year of purchase as per the Accounting Policy No. 3.5, as a result of a sum of Rs.309,050 was depreciated for the value of loader and lawn mower with driver's seat purchased in the year 2020 valued at Rs. 6,181,000 in the year under review and adjusted to the accumulated fund, the accumulated fund had been understated and the machinery depreciation allocation account had been overstated.</p>	<p>Actions will be taken to correct from the final account 2022</p>	<p>It should be accurately accounted for.</p>
<p>(d) In the revaluation of the assets of the preceding year although the equipment account should be debited by deducting fixtures account, to correct the recognition of fixtures amounting to Rs. 392,500 as office equipment, it had been debited to the Accumulated Fund.</p>	<p>Actions will be taken to correct from the final account 2022</p>	<p>It should be accurately accounted for.</p>

- (e) Even though a provision of Rs.1,216,000 had been made as creditors in the year 2020 to purchase the lawn mower with driver's seat, the actual value of the said machine had been Rs.994,500.
In recording this, because it was debited to the accumulated fund and credited to the machinery account, the creditor balance and the accumulated fund balance had been overstated and understated by Rs.221,500 respectively.
- (f) Although the purchases of generators which were specified in the schedule as creditors amounting to Rs.7,000,000 but not completed the purchases by the end of the year under review, should be accounted for as machines work- in - progress, it had been debited to an expense account.
- (g) Instead of values of increases and decreases remained in the balances of 7 types of income as at 01 January 2020 as per financial statements and as per schedule are adjusted in each arrears of income account in the year 2020, the difference of Rs.480,602 had been adjusted to the reserves and provisions account.
- (h) Although the computer account should be debited and the reserve and provision account should be credited in the revaluation of computer machine by Rs.213,600 the computer account had been debited and the accumulated fund account had been credited.
- Actions will be taken to correct from the final account 2022
- It should be accurately accounted for.
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1.6.2. Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
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Regarding 11 accounting subjects, as of December 31, 2021, a difference of Rs.368,248,449 was observed from the total value of Rs.2,428,249,496 according to the financial statements and the total value of the utility documents was Rs.2,060,001,047.	Difference is being looked for .	Differences should be identified and corrected.

1.6.3 Lack of Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
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Due to non-submission of documents/sub-documents for 03 accounting items valued at Rs.37,299,020 they could not be satisfactorily vouched.	Arrangements will be made to submit the schedule in future.	Actions should be taken to prepare and submit schedules .

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.25,202,130 as compared with the revenue over recurrent expenditure amounted to Rs.197,322,161. in the preceding year.

2.2 Revenue Administration

2.2.1 Performance on Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Arrears of rate balance as at 31 December 2021 had been Rs. 41,977,493 as per the computer software, Rs.42,319,900 as per the arrears of income report and Rs.45,454,000 as per the age analysis report . Within the age analysis of arrears of rates amounting to Rs. 45,454,000 , there were the balances of Rs.6,413,398, Rs.5,139,994, Rs.1,379,566, Rs.10,978,705, Rs.9,753,711 and Rs.11,788,626 less than a year, 1 to 2 years, 2 to 3 years, 3 to 5 years, 5 to 10 years and more than 10 years respectively and it had been unable to charge these balances.	Actions will be taken to discuss with the institution related to the software with respect to the difference Rs.3,476,507 between the balance of the computer software and the balance of age analysis and rectify.	Actions should be taken to identify the differences among data and to recover the accurate outstanding rate balances .
(b) An arrears of transmission tower revenue amounting to Rs.75,000 had to be recovered from 25 transmission towers in the council area as at 30 October 2021 .	When informed by letters on 12 October 2021 and 21 February 2022 and inquired by telephone to recover Rs.75,000 receivable, it was informed that the payment will be completed within the next two weeks.	Actions should be taken to recover arrears of transmission tower revenue

3. Operating 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 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) There had not been valid agreements pertaining to 15 out of the 29 public market trade stalls at Thorana Junction and although the agreements existed for 11 had expired in between 1998 and 2005, new agreements had not been entered into. Further, although the Department of Valuation had conducted a new assessment for these shops in October 2020, It had been impossible implement due to the objections of the shop owners.	The shop owners were informed to appear to sign the agreement from 01 March 2021 . A request was made on 25 February 2022 from Department of Valuation to take actions to conduct an inquiry on objection to consider their objections .	Actions should be taken to lease out the trade stalls with a valid agreement .
(b) Out of 151 public market trade stalls in Kiribathgoda a number of 15 did not have valid agreements and the contract period of 67 trade stalls in between the years 1980 to 1990, a number of 40 trade stalls in between the years 1991 to 2000, and 3 trade stalls in between the years 2001 to 2010 had expired. Because of those trade stalls had been given on long term lease basis, it could not be able to enter into new agreements as a result of the absence of original tenants and the existence of sub-leases.	These stalls are the stalls given on long term lease and there are no original tenants in those trade stalls. It has been recommended by the Assistant Commissioner to amend the time given for transfer of interim tax and submitted to the Commissioner of Local Government. As it was stated that the Sabha shall decide on the transferring of interim taxes as per Departmental Circular No. LGD/13/2016 dated 03 December 2020, actions will be taken in future accordingly.	Actions should be taken to lease out the trade stalls with a valid agreement.
(c) The Department of Valuation had carried out a new valuation for trade stalls in Kiribathgoda new shopping complex in October 2018 and for trade stalls in Hunupitiya new shopping complex in June 2018 .	The requests have been made from the Department of Valuation to provide the new monthly valuation .	Actions should be taken to lease out the trade stalls with a valid agreement

However, although the agreements of 20 trade stalls had expired, the new agreements had not been entered into.

- (d) Actions had not been taken to investigate the roads belonging to Sabha jurisdiction and take over the ownership to the Sabha and to account for and document in terms of Section 24(1)(b) of the Pradeshiya Sabha Act No. 15 of 1987. Nine identified roads have been handed over to the surveyor for surveying and actions will be taken to obtain the plans and to acquire the ownership. Actions should be taken in terms of the Act.
- (e) An expenditure of Rs.50 million had been incurred for the solid waste management programme for the year under review and a garbage yard, including a compost yard, was being run without obtaining an environmental licence. Due to the non-completion of the construction of the leachate treatment system, which is a by-product of compost production, the Central Environment Authority has rejected the request for obtaining the environmental permit. The Central Environment Authority has informed that it will be possible to obtain the environmental license within this year. Actions should be taken to obtain environmental license and maintain the compost yard and garbage yard.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
<p>The PC excavator valued at Rs. 12,654,144 purchased from the Sabha fund in the year 2010, the 8 ton roller received as a grant from the Ministry of Provincial Councils and Local Government in the year 2015 and Bach machine received as a grant from the Ministry of Local Government in the year 2016 had been removed from use during the period from 04 to 07 years and actions had not been taken to repair, sell or dispose of them.</p>	<p>The respective 03 machines were checked by the Chairman of Milleniya Pradeshiya Sabha and observed whether they are suitable for exchange or not. Although the PC 50 excavator machine has been offered for disposal activities in 2018 the highest bidder had not paid and released it.</p>	<p>Actions should be taken to repair and reuse or properly dispose of .</p>

3.3. Assets Management

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Failure to ensure security of assets</p> <p>Out of the lands owned by the Sabha, the extent of land, burial grounds and 13 bathing wells could not be found.</p>	<p>The survey activities have already been commenced.</p>	<p>Actions should be taken to recognize the unidentified assets</p>
<p>(b) Assets that had not ascertained the Ownership</p> <p>Due to the lack of plans for 64 lands and deeds for 80 lands out of the lands owned by the Sabha, a clear ownership on lands was not ascertained.</p>	<p>It has been already completed to send to prepare plans and declaration deeds for all the properties that have been documented so far through recommendations of Board of Surveys 2020 and 2021 .</p>	<p>Actions should be taken to ascertain the ownership of the lands.</p>

(c) Leasing out the part of Cyril Mathew Stadium to Football Federation

It had been leased out on 07 March 2006 to the Sri Lanka Football Federation for a period of 33 years by way of a transfer certificate without a lease agreement at a nominal rent of Rs.1,000 per annum. For this, the annual rent had not been paid since 2018 and the assessed value of the land amounting to Rs.19,000,000 and the assessed cost amounting to Rs.89,750 had not been recovered from the Sri Lanka Football Federation.

It has been stipulated to take further actions accordingly after obtaining necessary legal advice in this regard .

Actions should be taken to grant in a lease agreement, recover arrears of rent and recover land valuation costs from the Football Association.

3.4. Operating Review

Audit Observation

Actions had not been taken to survey and take over the Council ownership and to account for and document the roads belonging to council Administrative area in terms of Section 24(1) (b) of the Pradeshiya Sabha Act No. 15 of 1987 .

Comments of the Sabha

Nine identified roads have been handed over to the Surveyor for survey.

Recommendation

Actions should be taken in terms of the Act.

3.5 Human Resources Management

Audit Observation

The arrears of balance to be recovered from 16 officers who had Transferred, deceased, left service, retired and terminated as per employee loans schedule as at the end of the year under review was Rs. 880,312 .

Comments of the Sabha

Actions are being taken to recover the loans.

Recommendation

Actions should be taken to recover the employee loans.