

Kahawaththa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kahawaththa 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, cash flow statement, statement of changes in equity, significant accounting policies and the summary of other explanatory 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 the 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 accompanying financial statements give a true and fair view of the financial position of the Kahawaththa 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.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Responsibility for the Audit of 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 financial reporting process of the Pradeshiya Sabha.

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Auditor's Responsibility 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 exercise professional judgment and maintain professional skepticism 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 the 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 contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 the Pradeshiya Sabha has performed according to its powers, functions and duties; and
- Whether the resources 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 contains special provisions regarding the following requirements.

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year.
- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (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 expenditure of 04 development projects of Rs. 2,265,500 and land worth Rs.1,000,000 had not been accounted during the year under review.	It will be rectified when the preparation of the final account of 2023.	It should be corrected.
(b) Rs.5,053,041 of payable pension contributions to the Department of pension were not accounted.	It will be rectified when the preparation of the final account of 2023.	-Do-
(c) There was a difference of Rs.1,653,164 between the balance of the accumulated fund and the balance according to the financial statements.	It will be rectified in future.	-Do-

1.6.2 Lack of Written Evidences

Audit Observation -----	Comments of the Council -----	Recommendation -----
No detailed schedules were submitted to confirm the sum Rs.74,277,172 land and buildings, machinery and equipment and furniture and fittings.	A sub register containing all the details will be maintained in future.	Should be prepared detailed schedules.

1.7 Non-compliance

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

Non-compliance with Laws, Rules, Regulations and management decisions are as given below.

Non-compliance -----	Comments of the Council -----	Recommendation -----
(a) 02 Advances of Rs. 93,175 given in the years 2011 and 2017 were not settled as per Financial Regulation 371(5).	An investigation is ongoing for one advance. That the former Chairman has been informed in writing to settle the advance of Rs. 20,000.	Action should be taken as per the Financial Regulations.
(b) The council had not been enacted by-laws for 14 major matters under section 126 of the Pradeshiya Sabha Act.	By-laws have been enacted for 16 major matters. By-laws on sub division and inspection of building construction plans are sent for translation.	It should be done according to the provisions of the Pradeshiya Sabha Act.

2. Financial Review

2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2022 was Rs. 8,223,912 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 8,861,704

2.2 Revenue Administration

2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the council, the information about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year is given below.

Income Source	Estimated income	<u>2022</u>			Total deficit as at 31 December	<u>2021</u>			Total deficit as at 31 December
		Billed income	Collected income			Estimated income	Billed income	Collected income	
-----	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Assessments and tax	4,431,325	4,264,740	4,125,125	1,547,410	3,862,721	3,917,917	4,094,813	1,423,978	
Rentals	9,093,792	8,477,967	7,860,617	1,156,849	8,890,292	6,612,853	4,867,451	2,378,819	
License fee	1,035,000	1,127,066	1,094,466	-	1,079,560	353,950	842,370	-	
Other income	<u>2,617,000</u>	<u>1,891,537</u>	<u>1,464,743</u>	=	<u>2,145,200</u>	<u>1,944,027</u>	<u>1,743,555</u>	=	
	<u>17,177,117</u>	<u>15,761,310</u>	<u>14,544,951</u>	<u>2,704,259</u>	<u>15,977,773</u>	<u>12,828,747</u>	<u>11,548,189</u>	<u>3,802,797</u>	

2.2.2 Performance of the Revenue Collection

The observations regarding the performance of the revenue collection of the council are given below

Audit Observation	Comments of the Council	Recommendation
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(a) The outstanding assessment balance of Rs. 329,167 and the outstanding acre tax balance of Rs. 23,858 were more than 03 years old as on the last day of the year under review.	A part of the assessment has been levied. The council has decided not to ban property because of the economic crisis. Information will be sought and outstanding acres tax will be charged.	Arrears of revenue should be collected immediately.
(b) Rs. 574,320 in arrears of week fair fees and fish shop rents from the year 2008 to the year 2010 and Rs. 148,570 in arrears of rent for a public market shop for 23 months were not collected.	Arrears of Rs. 46,667 have been cut off with a council approval. Further work will be done for the remaining arrears.	-Do-

- (c) Due to a survey for the displayed notice boards was not conducted in the year 2022, the accuracy of the charged fees was not confirmed. Surveys were not conducted due to the Corona situation. -Do-

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) No action was taken in accordance with section 47 of the Pradeshiya Sabha Act No. 15 of 1987 regarding 29 unauthorized constructions that were identified from the year 2019 to the year 2022.	It has been adopted to maintain a register of unauthorized constructions and not to issue any permit to unauthorized constructions.	Action should be done with the identification of unauthorized constructions.
(b) The water meters of 30 customers of Endana Pradeshiya Sabha water project had been not functioned for more than 02 years, but new water meters were not installed for them.	Water meters were used to provide new connections and after receiving the requested 100 water meters, installation will be done.	Arrangements should be made to install water meters.
(c) The land of 04 acres where garbage is disposed in Haupe estate was not taken over. Also, although Rs. 11,290,769 was spent for 15 employees and 06 vehicles and machinery to dispose of about 750 metric tons of garbage annually, the waste was not disposed in an environmental friendly manner.	This land will be taken over as soon as possible and that the waste recycling programme will be started after taking over the waste disposal land.	Land acquisition should be expedited and a solid waste management programme planned and implemented.

3.2 Idle Assets

Audit Observation -----	Comments of the Council -----	Recommendation -----
A tractor handed over for repair in the year 2017 has remained idle in a garage for 05 years and it has not been able to start the engine until now.	The tractor was brought in the year 2022. An investigation is being carried out according to F.R. 104 for the settlement of advance given for the repair.	The investigation should be completed as soon as possible and those responsible should be identified.

3.3 Utilization of Vehicles

Audit Observation

08 Vehicles that were not owned by the council had not been taken over or returned and 05 scrap vehicles had not been disposed.

Comments of the Council

That the letters have been handed over and paid for the assignments and that the problems are being resolved and disposed.

Recommendation

Action should be taken as per the provisions of circulars.