

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalawana 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 operations, 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 Kalawana 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) A vehicle, library books and gully tank owned by the council totaling Rs. 7,438,621 were not accounted and the cost of a vehicle and a vibrator was under-accounted by Rs. 1,100,000.	That correction will be made during the preparation of the final accounts of the year 2023.	This should be corrected.
(b) A tractor and a bicycle costing to Rs. 973,750 owned by the council had been accounted for twice under fixed assets.	That correction will be made during the preparation of the final accounts of the year 2023.	This should be corrected.
(c) The rent billing relating to the year under review were over-accounted by Rs. 450,950 and under-accounted by Rs. 327,812.	That correction will be made during the preparation of the final accounts of the year 2023.	This should be corrected.
(d) The value of a bailer machine received as a donation of Rs. 950,000 was not adjusted in the statement of financial operations.	That such mistakes will not be made in future.	This should be corrected.
(e) There was a difference of Rs. 3,885,758 between balances as per financial statements and balances as per source documents of 06 accounting subjects.	That correction will be made during the preparation of the final accounts of the year 2023.	The reasons for the difference should be identified and solved.

1.6.2 Lack of Written Evidences for Audit

Subject -----	Comments of the Council -----	Recommendation -----
Detailed schedules were not submitted for 04 accounting subjects totaling Rs. 65,211,076.	The financial statements and schedules of the previous year are checked and will be taken necessary action.	Detailed schedules should be prepared.

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.

Audit Observation -----	Comments of the Council -----	Recommendation -----
Overdue sundry deposits amounting to Rs. 17,167,333 for the period from year 2007 to 2019 were not settled as per Financial Regulation 571 (2).	It will be further investigated and settled in terms of Financial Regulation 571 (2).	Should be act as per the Financial Regulations.

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. 5,106,350 and the correspondence expenditure exceeding the recurrent income of the previous year was Rs. 1,464,663.

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	2022			Total deficit as at 31 December	2021			Total deficit as at 31 December
	Estimated income	Billed income	Collected income		Estimated income	Billed income	Collected income	
-----	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	4,192,877	3,289,245	2,930,594	3,633,625	3,221,675	3,375,755	3,809,715	3,389,244
Rentals	9,941,213	10,396,796	8,169,855	12,593,822	14,132,656	8,321,796	4,856,903	9,971,521
License fee	1,541,790	7,731,571	7,731,571	-	529,120	1,204,755	1,204,755	-
Other income	<u>3,064,607</u>	<u>3,956,448</u>	<u>3,956,448</u>	<u>-</u>	<u>3,485,863</u>	<u>2,975,847</u>	<u>2,975,847</u>	<u>-</u>
	<u>18,740,487</u>	<u>25,374,060</u>	<u>22,788,468</u>	<u>16,227,448</u>	<u>21,369,314</u>	<u>15,878,153</u>	<u>12,847,220</u>	<u>13,360,765</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 -----
(a) 04 identified development areas were declared and assessment tax was not collected in the year 2021.	It has been forwarded to the Governor for approval to declare those areas.	Developed areas should be declared and charged assessment.

- | | | | |
|-----|--|--|---|
| (b) | There was a balance of Rs. 840,568 more than 05 years in the outstanding balance of Rs. 1,812,305 as at the date last date of the year under review. | The arrears of assessment tax will be recovered. | Arrears revenue should be collected immediately. |
| (c) | There was a balance of Rs. 228,212 which was more than 03 years old in the outstanding acre tax balance of Rs. 237,919 as at the last date of the year under review. | Even though the awareness was done, the receivings were minimal and tax collection was very difficult. | Arrears revenue should be collected. |
| (d) | Outstanding weekly fair charges of Rs. 118,559 had not been collected till the end of the year under review. | The relevant arrears will be collected. | Action should be taken to collect the arrears revenue. |
| (e) | Although the general meeting had decided to provide 191 newly constructed weekly fair stalls for a period of 05 years by charging Rs. 10,000 at once until the formal assessment was received, the stalls were given without doing that. | The relevant agreements are being signed. | Agreements should be made. |
| (f) | A survey of the institutions that should obtain environmental permits was not conducted in the year 2022. | The survey will be formally conducted in the year 2023 and the revenue will be collected. | Annual surveys will should be conducted and collected the revenue. |
| (g) | Rs. 676,325 had not been recovered for 132 notice boards identified by the 2022 annual survey. | A proper survey will be done in the year 2023 and recovery will be done. | Annual surveys should be conducted and revenue arrears should be collected. |
| (h) | Charges of Rs. 111,000 were not collected from 65 three – wheelers belonging to 04 three – wheeler associations. | The arrears have been forwarded to the three – wheeler associations and that action will be taken to collect the arrears promptly. | Action should be taken to collect the arrears revenue. |

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 done by the council under section 3 of the Pradeshiya Sabha Act are shown below.

3.2 Solid Waste Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Although Rs. 50,000 was paid to Kalawana Divisional Secretary in the year 2021 to acquire land for a garbage yard, the acquisition process was not completed. Also, the bailer machine worth Rs. 950,000 received from the Provincial Council in August 2022 for non-perishable waste recycling was still unused until January 2023.	These matters are expected to be concluded after the improvement of financial situation of the council.	Land acquisition and three phase power supply should be done immediately to use the bailer machine.
(b) Although Rs. 4,187,615 was spent for 05 employees and 02 vehicles and machinery to dispose of 1620 metric tons of garbage annually, the waste was not disposed of in an environmentally friendly manner.	A suitable land for a waste segregation center is being observed.	A formal solid waste management programme should be planned and implemented.

3.3 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The Road Development Authority had not returned the coal rolls that had been taken in the year 2021. While it was kept in Weddagala area for about 08 months, the damage of Rs. 187,260 occurred due to the theft of 02 batteries was not reimbursed and the rental fee of Rs. 96,460 to be charged from the authority was not charge until December 2022.	The Road Development Authority has been informed to repair the machine and Rs. 168,900 has been recovered from the rental value of Rs. 265,360.	Action should be taken to collect the arrears revenue and reimburse the damages.
(b) The gully bowser that met to the accident in July 2022 was not repaired until January 2023. Therefore, a source of income had also been lost by not being able to provide the gully service.	The repair work of the gully bowser is in the final stage.	Action should be taken to repaired and used for providing services.
(c) The council had not a formal programme to identify illegal constructions.	The relevant officers have been informed to give reports on unauthorized constructions.	Action should be taken to identify the unauthorized constructions.

3.4 Management Inefficiencies

Audit Observation

Due to the approval was not given by the Kukulegama hydro power plant to build a tank for dispose of dead waste, the Rs. 902,100 spent for it was a useless expense and the problem of disposing of dead waste was not solved.

Comments of the Council

That only the construction work of the industry was done by the development division.

Recommendation

Approval should be properly obtained and construction work should be carried out.

3.5 Controversial Transactions

Audit Observation

Rs. 502,118 had been paid during the year under review on 08 occasions for vehicles required on hire basis outside the procurement process for the Chairman to travel outside the jurisdiction of the council. This payment also included Rs. 75,405 paid for going to political meetings held in Pelmadulla and Dambulla areas.

Comments of the Council

According to the report of the district price committee for the duties of the Hon. Chairman, the taxis have been procured on the recommendation of the Technical Officer as it takes a long time to get the taxis in accordance with the procurement process.

Recommendation

Circular provisions and procurement guidelines should be followed in procuring vehicles on rental basis. Also, those vehicles should be used for official purposes.

3.6 Assets Management

Audit Observation

08 vehicles that were not owned by the council had not been owned, taken over or returned.

Comments of the Council

Action will be taken to take over.

Recommendation

Should be followed the guidelines in the Assets Management Circular 02/2017.

3.7 Contract Administration

Audit Observation

The development work of Kiridapitiya near Pothuhera school was completed at Rs. 1,474,413 and the final report was given on 13 December 2021. But even by March 2023, it could not be used for sports because the rainwater had not been made to flow properly and the grass had not been laid.

Comments of the Council

The soil has been leveled and made as proper and about 95 percent of the work has been completed yet.

Recommendation

The work on the playground should be completed in such a way that it can be used for sports activities.