

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Kolonna 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 Kolonna 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 total cost of machinery equipment, furniture and fittings and parking yard totaling Rs.1,164,487 was not capitalized. Also, the cost of constructing the compost yard was over-accounted by Rs. 573,787.	That will be corrected during the preparation of the account for the year 2023.	This should be corrected.
(b) The industry creditor balance was Rs. 27,369,952 and the industry debtor balance was Rs. 25,633,709 as at 31 December of the year under review.	That will be corrected during the preparation of the account for the year 2023.	This should be corrected.
(c) Arrears notice board fee of Rs. 58,650 and arrears of transmission tower revenue of Rs. 12,000 for the year under review were not accounted.	That will be corrected during the preparation of the account for the year 2023.	This should be corrected.
(d) Rs. 110,889 of daily labour salaries paid from the council fund was accounted as receivables and deposits and receivable charges of weekly fair were overstated by Rs. 134,915.	That will be corrected during the preparation of the account for the year 2023.	This should be corrected.
(e) There was a difference of Rs. 5,241,038 between the balances as per financial statements and the balances as per source documents at the end of the year under review in 04 accounting subjects.	That will be corrected during the preparation of the account for the year 2023.	Should be identified the reasons for difference and solved.

### 1.6.2 Lack of Written Evidences for Audit

Subject -----	Comments of the Council -----	Recommendation -----
The necessary detailed schedules were not submitted to confirm 04 accounting subjects totaling Rs. 80,599,514.	The relevant detailed schedules will be submitted while preparing the account for the year 2023.	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.

<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) An advance of Rs. 33,000 granted in the year 1998 was not settled in contravention of Financial Regulation 371 (5) of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	That the amount is not reimbursable and that it is submitted to the Provincial Council for approval to be cut off.	Should be act as per 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. 7,947,409 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 3,730,845.

### 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				2021			
	Estimated income	Billed income	Collected income	Arrears as at 31 December	Estimated income	Billed income	Collected income	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	753,700	1,055,365	1,118,915	360,729	848,400	874,176	753,374	421,919
Rentals	5,165,914	3,624,433	3,494,522	2,443,126	6,038,644	4,199,004	2,240,680	3,062,280
License fee	1,115,500	973,580	973,580	-	1,077,275	892,960	898,060	-
Other income	<u>3,316,542</u>	<u>3,316,542</u>	<u>1,046,258</u>	<u>-</u>	<u>10,688,192</u>	<u>1,241,554</u>	<u>1,137,727</u>	<u>103,827</u>
	<u>10,351,656</u>	<u>8,969,920</u>	<u>6,633,275</u>	<u>2,803,855</u>	<u>18,652,511</u>	<u>7,207,694</u>	<u>5,029,841</u>	<u>3,588,026</u>

## 2.2.2 Performance of the Revenue Collection

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

<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
(a) No arrangements have been made to collect assessment tax from the areas gazetted as developed in the year 2021 until March 2023. Also, the assessment fee of 30 land lease units that were given without agreement from the year 1983 were not revised after the year 2010.	That the property has been referred to the Valuation Department for valuation.	Arrangements should be made to collect the assessment tax.
(b) Trade license fees, business tax and industry tax amounting to Rs. 238,680, notice board fee of Rs. 135,145 and three-wheeler membership fees of Rs. 111,000 were not charged.	There is such a shortage due to the fuel and health crisis and that efforts are being made to recover the outstanding noticeboard fees.	Revenue should be recovered immediately.

## 3. Operational Review

### 3.1 Solid Waste Management

<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
(a) Rs. 7,612,713 had been spent for the construction of a compost yard and the purchase of necessary machines in the years 2020 and 2021. Also, a baler machine worth Rs. 950,000 was received from the Provincial Council in July 2022. But, the work on the compost project had not commenced at the end of the year under review.	Solid waste management is to be done after the electricity connection.	A formal waste management programme should be planned and implemented.
(b) Although Rs. 3,145,472 was spent for 06 employees and 02 vehicles to dispose of 840 metric tons of waste in the council jurisdiction in the year under review, the waste was not disposed in an environmentally friendly manner.	That the basic needs of the compost yard will be fulfilled and regularized.	A waste management programme should be planned and implemented.

### 3.2 Assets Management

<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
(a) The ownership of 32 out of 49 cemeteries owned by the council had not been settled.	Taking over of those lands will be carried out.	Action should be taken to take over the right.
(b) Although Rs. 437,475 was paid as advance in the year 2021 for the repair of a tipper truck, it was delivered in the year 2020, but the repair was not completed until December 2022.	An investigation was carried out on the repair of the vehicle on 01 November 2022.	Repairs should be done immediately.

### 3.3 Procurement

<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
Although the quotes were received from 02 companies to purchase a hauler, it was wrongly stated that the prices were quoted from only one company. Therefore, the council had suffered a financial loss of Rs. 644,400 due to the non-acceptance of the minimum price offered by the agency that was not evaluated.	The machine was purchased from the other company because the machine of the company that offered the lowest price did not compliance with the specifications.	Answers are incorrect. The loss should be recovered from the responsible officers.