

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Kuruwita Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the comprehensive income statement, 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.

I do not express an opinion on the accompanying financial statements of the Pradeshiya Sabha. Because of the significance of the matters mentioned in the paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in paragraph 1.6 of this report.

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 responsibility is to conduct the audit of the Pradeshiya Sabha financial statements in accordance with Sri Lanka Auditing Standards and to issue an Auditor’s report. However, because of the matters described in “Basis for Disclaimer of Opinion” section, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 Pradeshia 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 except observations (e) and (f) in paragraph 1.6.1 of this report.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation -----	Comments of the Council -----	Recommendation -----
(a)	Rs. 637,043 cost of labour rest room was not capitalized and Rs. 5,541,745 was over capitalized for the expense of 04 development projects.	That will be corrected in next year.	This should be corrected.
(b)	Arrears of assessment and acreage tax of Rs. 480,548 was not accounted.	That will be corrected in next year.	This should be corrected.
(c)	Due to erroneous double entry, the account of contribution of income to furniture and fittings and capital application was overstated by Rs. 92,400.	That will be corrected in next year.	This should be corrected.
(d)	Received ayurvedic aids were under accounted by Rs. 103,334.	That will be corrected in next year.	This should be corrected.
(e)	The balance of the fixed deposit account had been brought forward less than Rs. 51,664,000 from the year 2020 and it was wrongly recorded in the same year that capital aids of Rs. 57,724,871 was to be received. But, due to that those mistakes were not corrected even in the year 2022, there was an unsettled suspense balance of Rs. 109,388,871 in the financial statements.	That will be corrected in next year.	This should be corrected.
(f)	The credit notes of Rs. 114,806,153 and the debit notes of Rs. 98,391,679 used in the years 2020 and 2021 for fixed deposits, capital aids, employee loans, and advance accounts that could not be settled, and the notes applied to the accumulated fund as the cross note of those notes were not accounted as a result of an actual transaction.	That will be corrected in next year.	This should be corrected.

- (g) There was a difference of Rs. 161,077,208 between the balance according to the financial statements and the balance according to the source documents at the end of the year under review in relation to 07 accounting subjects. The difference is occurred due to the non-accounting of assessment tax over payment. Should be solved the difference.

1.6.2 Lack of Written Evidences for Audit

Subject -----	Comments of the Council -----	Recommendation -----
The necessary detailed schedules were not submitted to confirm 03 accounting subjects totaling Rs. 214,055.	details are difficult to find, it has not been forwarded to the Commissioner of Local Government for write-off.	and schedules should be submitted.

1.6.3 Unauthorized Transactions

Audit Observation -----	Comments of the Council -----	Recommendation -----
29 journal entries with a total value of Rs. 575,358,836 were not approved in the year 2022 and journal vouchers were also not prepared.	That will be prepared correctly when preparing the accounts of next year.	All journal entries should be formally approved.

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.

2. Financial Review

Non-compliance -----	Comments of the Council -----	Recommendation -----
(a) Advances amounting to Rs. 2,614,981 for the period from the year 2009 to the year 2017 were not settled in contravention of Financial Regulation 371 (5).	That advances have been sent to the Governor's office to be cut off from the advance register.	Should be act as per the Financial Regulations.
(b) Rs. 53,000 had been spent for the administrative needs of the council contrary to the instructions of the Local Government Commissioner.	That the Chairman has been informed in writing to reimburse those expenses.	Should be act as per the instructions.

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. 63,358,707 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 90,282,746.

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	<u>2022</u>				<u>2021</u>			
	Estimated income	Billed income	Collected income	Arrears as at 31 December	Estimated income	Billed income	Collected income	Arrears as at 31 December
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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	7,428,955	8,418,956	5,930,941	11,262,318	6,443,197	8,809,052	5,732,585	8,944,120
Rentals	9,096,117	9,004,731	8,184,746	1,905,021	8,060,294	7,791,836	8,510,419	1,128,171
License fee	2,204,250	2,780,474	2,780,474	-	3,160,450	2,179,966	2,180,966	-
Other income	<u>11,288,780</u>	<u>17,431,240</u>	<u>14,210,857</u>	<u>236,468</u>	<u>10,770,730</u>	<u>36,124,577</u>	<u>34,955,353</u>	<u>180,619</u>
	<u>30,018,102</u>	<u>37,635,401</u>	<u>31,107,018</u>	<u>13,403,807</u>	<u>28,434,671</u>	<u>54,905,431</u>	<u>51,379,323</u>	<u>10,252,910</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) There was an outstanding assessment balance of Rs. 825,776 more than 05 years and an outstanding acre tax balance of Rs. 648,097 older than 03 years as at 31 December 2022.	Arrears is collected through mobile services and field inspections and land assessing for acreage tax and resolution of land issues.	Should be collected the arrears revenue.
(b) Rs. 1,149,850 in outstanding rent for more than 03 years and Rs. 63,000 business tax was not collected from 24 telephone transmission towers.	That will be charged in future.	Should be collected the arrears revenue.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
The council paid Rs. 3.5 million to Kuruwita Divisional Secretariat in 2015 for taken over 10 acres. But, it was not possible to plan and implement a solid waste management programme by the end of the year under review due to that the land could not be acquired.	The documents for taking over the land have been submitted to the relevant institutions and the documents have been prepared and forwarded again and again according to the requests of those institutions.	The land should be expeditiously acquired and a solid waste management plan should be implemented.

3.2 Controversial Transactions

Audit Observation -----	Comments of the Council -----	Recommendation -----
A cab that was not owned by the council was remained idle since the year 2015 and it was burnt and destroyed in May 2022. According to Financial Regulation 104, the damage and those responsible in this regard had not been decided by the end of the year under review.	Court proceedings are not over. This is forwarded to the Presidential Secretariat to charge losses under the Office for Reparations Act No. 34 of 2018. Investigations under F.R. 104 regarding the damage have been carried out and submitted to the Assistant Commissioner of Local Government.	Should be act as per Financial Regulations.

3.3 Utilization of Vehicles

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) No steps were taken to take over or return the ownership of a backhoe loader received from the government in the year 2015. The repair of disposal work of 03 scrap vehicles was not completed until the end of the year under review.	The right of registration has not been taken over and that the relevant vehicles are being repaired.	Should be act as per the circular provisions.
(b) A bobcat machine, a compactor machine and a motor boat owned by the council were unused from between 07 and 10 years.	That the bobcat is being serviced as needed, that the compactor is being repaired and that the motor boat engine case is not over.	Assets should be utilized effectively.

3.4 Un-economic Transactions

Audit Observation

It was decided in the general meeting held on 16 July 2021 to get the services of a lawyer for a monthly allowance of Rs. 25,000 for the affairs of the council and on that day, a contract was made with a lawyer without the procurement procedure. Later, Rs. 425,000 was paid to him as monthly allowances from July 2021 to December 2022. But, apart from that, another Rs. 103,920 was paid to him and Rs. 578,627 to other lawyers for the same period.

Comments of the Council

That the proposal of the general meeting to appoint a lawyer and provide a monthly allowance for high-expense cases have been confirmed and that the fee for the cases handled by him and other lawyers have been paid since before the date of engagement with the lawyer.

Recommendation

If get the services of a lawyer by paying a monthly allowance, should not be paid extra fee for legal cases.

3.5 Contract Administration

Audit Observation

Rs. 70,622 was overpaid in 03 constructions.

Comments of the Council

Not answered for Rs. 28,942. That the relevant society has been informed in writing to refund the remaining overpayments.

Recommendation

Overpayments should be charged.