

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kothmale Pradeshiya Sabha for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, including a summary of significant accounting policies, 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 Sub-section 172 (1) of the Pradeshiya Sabhas Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kothmale Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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 the Pradeshiya Sabha 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 includes specific provisions for following requirements.

- (a) The Financial Statements presented are consistent with that of the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.

- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(1)(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	Comment of the Sabha	Recommendation
(a) The advertisement boards income of Rs. 134,650 received and the advertisement boards income of Rs. 490,000 receivable for the preceding year had not been brought to accounts.	That it will be dealt with in the accounts for the year 2023.	Income should be accounted for.
(b) Overprovisions of debtors related to the preceding year amounting to Rs. 221,821 had been debited to expenditure without debiting the accumulated fund.	That the action will be taken to rectify the account.	Account balances should be rectified.
(c) The expenditure of the year under review had been overstated due to the adjustment of the income and expenditure account and the accumulated fund through the journal entry No. 16 during the year under review for rectifying the error of adjusting the audit fees of Rs. 162,000 as expenditure of that year, for which payments were made for the year 2019 in the preceding year.	That the action will be taken to rectify the error through the account.	- Do -
(d) The audit fees of Rs. 168,000 related to the preceding year and the audit fees related to the year under review had not assessed and accounted for.	- Do -	- Do -
(e) Sums involving expenditure creditors of Rs. 169,120 less in value and sums involving 02 creditor balances of Rs. 112,986 more in value in relation to the year under review had been shown.	That the action will be taken to rectify the error when preparing the account of 2023.	Accounts should be prepared correctly.

1.6.2 Unreconciled control accounts or records

Audit Observation	Comment of the Sabha	Recommendation
There was a non-reconciliation of Rs. 7,070,811 when compared with the	That the action will be taken to have it rectified	The non-reconciliations in account balances should

balances in the primary books / subsidiary registers relating to 07 account balances shown in the financial statements. at the time of preparing the account of 2023. be brought to parity.

1.6.3 Lack of written evidence for audit

Audit Observation	Comment of the Sabha	Recommendation
04 account balances to the value of Rs. 2,241,843 as of December 31 of the year under review could not be satisfactorily verified in the audit due to non-submission of related schedules.	That the action will be taken to have it rectified at the time of preparing the account of 2023.	The non-reconciliations in account balances should be brought to parity.

1.7 Non-compliance

Non-compliance to laws, rules and regulations

Instances of non-compliance to laws, rules and regulations are as follows :

Reference to laws, rules and regulations	Non-compliance	Comment of the Sabha	Recommendation
In pursuance of 571(3) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Development project retention money in hand in respect of 09 cases from 1 July 2019 to 19 November 2020 amounting to Rs.135,776 had not been disposed.	That the action is taken to release the retained money payable and the balance to be credited to the revenue.	Action should be taken in accordance with Financial Regulations.

2. Financial Review

2.1 Financial Results

In Accordance with the financial statements presented, the income over the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2022 was Rs. 34,496,669 in comparison to the income over the recurring expenditure of the preceding year amounting to Rs. 24,789,319.

2.2 Revenue Administration

2.2.1 Estimated income, Billed income, Collected income and Outstanding income

According to the information furnished by the chairman, the particulars with regard to estimated income, billed income, collected income and the income in arrears concerning the year under review and the preceding year are as shown hereunder :

Source of Income	2022				2021			
	Estimated Income	Billed Income	Collected Income	Total Income in arrears as of 31 December-	Estimated Income	Billed Income	Collected Income	Total in arrears as of 31 December-
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	11,725,500	9,716,533	9,546,462	4,253,680	11,836,500	11,038,336	9,549,193	4,083,609
(ii) Stall Rent	7,532,800	1,509,818	1,194,568	3,045,960	6,591,000	6,946,901	5,727,478	2,730,710
(iii) Licence Fees	11,291,000	10,649,464	10,649,464	-	14,642,000	2,238,584	8,902,644	-
(iv) Other Income	81,555,000	15,294,335	16,537,508	6,584,270	77,928,500	-	81,345,847	7,827,443
	112,104,300	37,170,150	37,928,002	13,883,910	110,998,000	20,223,821	105,525,162	14,641,762

2.2.2 Performance in the collection of income

Observations in relation to the performance in the collection of income of the Pradeshiya Sabha are given below :

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and Taxes		
There existed an outstanding balance of Rs. 4,472,458 as of the closing date of the year under review and, in the said amount in arrears, there was a balance of Rs. 1,739,976 recoverable from 1511 premises of rates over periods from 01 to 05 years and a balance of Rs. 549,504 due from 258 premises of rates above 05 years.	That the action will be taken to collect the income in arrears during the year 2023.	Income in arrears should be collected.
(b) Other Income		
i. The collection from the three-wheeler rent in arrears amounting to Rs. 2,711,510 as of 01 January of the year under review was Rs. 710,000 or 26 percent and, only a sum of Rs. 424,300 or 29 percent of the billed amounts totalling Rs. 1,475,900 had been recovered up to 31 December 31 of the year under review.	That the action will be taken to recover outstanding amounts after filing cases before the court of law.	Income in arrears should be collected.
ii. As of 31 December of the year under review, the water charges in arrears was Rs. 526,150 and a sum amounting to Rs. 354,295 of the billed water	That the action will be taken to recover outstanding amounts of	Income in arrears should be collected.

charges in the year 2022 had not been collected. In the outstanding balance of Rs. 869,425 as of the closing date of the year subject to review, there existed a balance of Rs. 486,400 in arrears due from 86 persons over periods of 01 to 05 years and a balance of Rs. 161,645 in arrears due from 31 persons over periods more than 05 years.

income that are due for further collection.

(c) Court fines and Stamp duties

The court fines and stamp duty receivable from the Chief Secretary of the Provincial Council and other authorities as of December 31 of the year under review, amounted to Rs. 947,740 and Rs. 5,636,800 respectively.

That the said amounts will be charged in the future. Income in arrears should be brought in.

3. Operational Review

3.1 Execution of duties entrusted by the Act

The state of affairs observed with regard to the carrying out of the duties that should have been attended to by the Pradeshiya Sabha in the regularization and control of the matters relating to public health, public utility services and public roads and roadways, and in bringing about the public wellbeing, amenities and welfare under section 3 of the Pradeshiya Sabhas Act were as given below :

Audit Observation	Comment of the Sabha	Recommendation
(a) 04 public lavatories in the respective area of authority were left to be dilapidated into ruination without any maintenance by not dealing with them in accordance with section 85 (b) of the Pradeshiya Sabhas Act, No. 15 of 1987.	That the necessary measures will be taken in the future.	Provisions of the Act should be adhered to.
(b) The weekly fair (Sathipola) land and buildings in the new town of Kothmale were left to be subject to ruination without any maintenance and use by not dealing with them in accordance with section 108 (d) of the Pradeshiya Sabhas Act, No. 15 of 1987.	That the necessary measures will be taken in the future.	Provisions of the Act should be adhered to.
(c) There was no road inventory as per Chapter 27 of Part III of the Pradeshiya Sabhas Act, No. 15 of 1987.	That the action will be taken during the year 2023.	Action should be taken in accordance with the action plan.
(d) Even though the stationery, laptop computers, multimedia equipment, photocopiers and office equipment needed to run the study centres for the two libraries in Maldeniya and Pudaluoya were	That the relevant information resource centre will be made operative from the	The project concerned should be implemented.

made available by a private project as donations on month of June 2023
08 January 2022, the related project had not been
initiated as of the closing date of the year subject to
review.

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| (e) | Despite the fact that it shall be the duty of the Pradeshiya Sabha to take all possible steps within its area to dispose of all garbage, household waste and sewage in accordance with section 93 (c) of the Pradeshiya Sabhas Act, No. 15 of 1987, the solid waste management centre in Kothmale New Town was not put to any use, leaving it to ruination. | That it was not possible to make use of the said centre due to continuous opposition shown in the past by the people in the locality. | It should be put to use in an effective task. |
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3.2 Management inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Action to settle 87 creditor balances of Rs. 58,610,536 and 246 debtor balances of Rs. 9,690,235 from the year 2011 to the year under review had not been taken.	That the action will be taken to have them settled during the year 2023.	Action should be taken to settle creditor balances.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) The boundaries of 07 cemeteries that were subject to examination were not demarcated and the approval of the Pradeshiya Sabha was not obtained for burial activities.	That the action will be taken to rectify the shortcomings.	Steps should be taken to properly maintain the assets, make them secure and put to utilization.
(b) 14 buildings including library building, places of boutiques and houses of the Pradeshiya Sabha, were left to be fallen into ruination without any maintenance.	That the necessary measures will be taken in the future.	Steps should be taken to properly maintain the assets, make them secure and put to utilization.
(c) As of the closing date of the year under review, 07 items of machinery and 04 items of furniture and office equipment and 02 vehicles remained idle and underutilized over a period ranging from 01 to 20 years.	That the action will be taken to repair the two ambulances and the computers and office equipment will be made use of in the future.	Action should be taken to repair the items and put them to use.

3.4 Procurement Management

Audit Observation

In the case of the construction work of the bus stand with an estimated total cost valued at Rs. 12,000,000, 06 estimates of Rs. 2,000,000 each had been prepared and the construction work involved had been assigned to 04 societies and a sum amounting to Rs. 10,047,150 had been paid as of the closing date of the year under review with the intention of bypassing the open tender procedure by not calling for tenders in accordance with Rules 177 and 178 (5) of the Pradeshiya Sabha (Financial Administration) of 1988 or drawing attention to the provisions specified in Rules 178 (3) and 178 (3) (2) thereof, having acted in deviation of such rules.

Comment of the Sabha

That this construction work has been implemented under 06 phases from the year 2021 to December 2022.

Relevant rules should be complied with.

3.5 Human Resource Management

Audit Observation

There were 20 vacancies in 11 approved cadre positions of the Pradeshiya Sabha and 02 technical officer posts and 02 technical assistant posts had been rendered vacant, situation of which had caused a drawback in the execution of duties involving the inspection of the works of construction of the Pradeshiya Sabha and the constructions of unauthorized nature within the Sabha area.

Comment of the Sabha

That the Commissioner of Local Government and the Chief Secretary of the respective Ministry have been informed of the vacancies.

Recommendation

Action should be taken to have the vacancies filled up.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation

(a) The level of achievement of the tasks and goals specified in the action plan was not numerically shown in the performance report.

Comment of the Sabha

That the level of achievement of the respective targets will be presented numerically in the action plan 2023.

Recommendation

Action plan should be prepared properly.

(b) 04 key tasks set out in the action plan prepared for the year under review had not been not accomplished.

That the action will be taken to do accordingly during the year 2023

Action should be taken in accordance with action plan.

4.2 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
According to the budget prepared for the year subject to review, when the estimated income and expenditure in comparison with the actual income and expenditure, there were variations observed from 12 percent to 74 percent in 06 revenue objects and 07 percent to 49 percent in 07 expenditure objects, and as such, the budget had not been used as an effective tool of control.	That there had been a variation due to the overall economic conditions such as the increase in fuel prices in the backdrop of the economy that prevailed during the situation of corona pandemic.	The budget should be prepared with due care and attention in consideration of the necessity concerned.

4.3 Environmental Issues

Audit Observation	Comment of the PS	Recommendation
Close upon 3.5 tons of garbage were collected on daily basis in the area of authority of the Pradeshiya Sabha and the heaps of such garbage had been dumped in a ditch in Hapugastalawa area without any management. As the non-biodegradable waste was burnt at the Herowatta waste recycling centre, severe environmental damage had been caused. There was no emphasis on the production of organic fertilizers out of the decomposable wastes.	That there was a large accumulation of garbage into the vehicle that collects the non-perishable litter and that this has been so done due to the fuel problem that prevailed in the country	Solid waste should be managed.

4.4 Sustainable Development Goals

Audit Observation	Comment of the Sabha	Recommendation
The Pradeshiya Sabha had not set up the sustainable development goals in accordance with the Sustainable Development Act, No. 19 of 2017 For the year 2022.	That the goals for the year 2023 will be established and act accordingly.	Requirements of the Act should be complied with.