

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Kelaniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022, comprehensive income statement, statement of changes in equity, cash flow statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 Sabha Act No. 15 of 1987 and the Provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Kelaniya Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

**1.2. Basis for Qualified Opinion**

I express qualified opinion 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 Responsibilities for the Audit of the 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 Sri Lanka Public Sector Accounting Standards 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 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.

**1.4 Audit Scope (Responsibility of the Auditor 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 exercised professional judgment and maintain professional scepticism throughout the audit. I further:

- 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 its 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 it 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 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of Section 6(1)(d)(iii) of the National Audit Act, No. 19 of 2018.

(b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of 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	Comments of the Sabha	Recommendation
(a) A falsely accounted depreciation value of Rs.4,388,438, as at the starting day of the year under review, had been credited to Provision for Depreciation Account, instead of crediting to Accumulated Fund for correction.	Accepted.	Should be correctly accounted.
(b) Depreciation value, for the year under review, by Rs.1,737,921 and for Previous years by Rs.2,131,720, had been understated.	Accepted.	-do-

### 1.6.2 Unreconciled Control Accounts & Reports

Audit Observation	Comments of the Sabha	Recommendation
(a) The total value of 07 Account Headings as per financial statements as at 31 December of the year under review was, Rs.219,222,838 and total value as per supporting schedules was Rs.153,152,579 thereby, there was a difference of Rs.66,070,249.	Difference will be investigated into.	Differences should be identified and corrected.
(b) The total value as at 31 December of the year under review, relating to 07 Account Headings as per Arrears Revenue Report was Rs.69,442,254 and since the total value as per Arrears Revenue Age Analysis Report was Rs.67,683,174, there was a difference of Rs.1,759,080.	-do-	-do-

### 1.6.3 Lack of Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
Since a Rent Income schedule has not been maintained, a Rent Income of Rs.733,489 could not be examined in the Audit, satisfactorily.	Rent Schedule will be maintained when renting again.	Schedule should be prepared.

## 1.7 Non- Compliance

### Non Compliances with the Laws, Rules, Regulations and Management Decisions

Non-compliance with Laws, Rules, Regulations and Management Decisions are stated below.

Reference to the Laws, Regulations etc.	Non- Compliance Rules	Comment of the Sabha	Recommendation
(a)	Section 20 of Rating & Valuation Ordinance No.30 of 1946.	Rates had been charged based on the assessment of the year 2009.	Assessments have been started again. New Rates should be obtained.
(b)	Financial regulation 371(b)	Advances amounting to Rs.4,529,977 given during the period from 1997 to 2010, had not been recovered even as of 30 April 2023.	Rs.4,529,977 had been remaining outstanding by 30 April 2023. Advances should be recovered as per Financial Regulations.

## 2 Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.111,371,688 as compared with the revenue over expenditure amounted to Rs.25,202,130 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears Revenue

As per the information presented by the Secretary, particulars relating to the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Income Source	2022				2021			
	Estimated Income	Billed Income	Collected Income	Arrears Income as at 31st December	Estimated Income	Billed Income	Collected Income	Arrears Income as at 31st December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates & Taxes	71,000,000	62,635,232	14,462,268	48,998,852	74,000,000	64,748,504	65,464,445	44,933,514
(ii) Rent	28,175,400	31,913,924	30,789,868	22,830,680	22,878,949	26,328,512	24,014,130	22,267,194
(iii) License Fees	5,700,000	3,426,652	3,426,652	-	1,700,000	899,394	899,394	-
(iv) Other Income	8,750,000	13,448,854	13,448,854	733,489	2,400,100	364,068	364,068	733,489
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	<u>113,625,400</u>	<u>111,424,662</u>	<u>62,127,642</u>	<u>72,563,021</u>	<u>100,979,049</u>	<u>92,340,478</u>	<u>90,742,037</u>	<u>67,934,197</u>

## 2.2.2 Revenue Collection Performance

Observations relating to Revenue Collection Performance are stated below.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>(a) Rates and Taxes</b>		
(i) Arrears Rates and Taxes balance as at closing date of the year under review, had been Rs.48,998,852 which included balances exceeding 10 years amounting to Rs.11,788,626.	Actions will be taken to recover arrears amounts.	As per the Act, actions should be taken to recover Arrears Rates balances.
(ii) Out of the Arrears Rates balance of Rs.42,319,901 as at the beginning date of the year under review, recovered amount had been Rs.16,749,161 as of 10 May 2023.	In 2023, Rs.7,198,254 had been recovered from the arrears.	-do-
<b>(b) Rent</b>		
(i) With regard to 73 shops, balance outstanding over one year had been Rs.9,492,140 as at the end of the year under review.	Charges will be made according to the investigation in to objections of Thorana Junction Shops.	Arrears Shop Rent should be charged.
(ii) As per the Rent Schedule, no amount had been recovered during the year for 27 shops of which, Arrears Shop Rent had been Rs.4,072,409 as at the end of the year under review.	Charging will be done according to the investigations of objection.	-do-
(iii) Arrears Rent Income of 02 Cinemas amounting to Rs.425,145 from the month of January 2020, had not been recovered even as of 30 April 2023.	Actions will be taken to seal.	Arrears Rent Income from Cinemas should be recovered.

## 3. Operating Review

### 3.1 Discharging the Duties 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 by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>(a) Environmental Issues</b>		
Licences had not been obtained as of 30 April 2023, for 04 Crematoriums operated by the Kelaniya Pradeshiya Sabha.	Once the documents are complete, will be sent to Central Environmental Authority to obtain licences.	Environmental Licences should be obtained.
<b>(b) Solid Waste Management</b>		
An expenditure of Rs.74,003,563 had been spent by the Sabha, during the year under review to dispose 4,255 tons of bio-degradable waste and 3,805 tons of non-biodegradable waste.	No space available for the expansions of Compost Yard.	Effective Waste Management Plan should be formulated.

### **3.2 Assets Management**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>(a) Failure to ensure security of assets</b>		
Land extents had not been identified of 05 Lands with Rs.6,550,000 assessed value.	The investigation activities regarding Lands are being carried out.	Extents should be identified and accounted.
<b>(b) Unauthorized constructions had been put up on 2 Lands with Public Bathing Wells.</b>	Recommendations are directed for implementation.	Unauthorised Constructions should be removed.
<b>(c) 4,861 books worth Rs.1,009,154 of 09 libraries operating under the Sabha, had been misplaced as at 31 December 2022.</b>	Shortages have been referred to for recovery.	Shortages should be recovered.
<b>(d) Even though, the documents required for making the transfer of the Tractor valued at Rs.1,195,000, received by the Sabha from the Ministry of Tourism on 03 July 2008 were submitted in 2019, the transfer had not been done.</b>	Actions will be taken to re-submit documents for making the transfer.	Should be transferred.

### 3.3 Human Resources Management

Audit Observation	Comment of the Sabha	Recommendation
<p><b>Staff Loan</b> Staff Loans amounting to Rs.2,023,084 of officers, who were interdicted, vacated office, died and retired, as in Rs.487,312 for 04 officers, Rs.382,972 for 04 officers, Rs.163,820 for 01 officer, Rs.988,980 for 06 officers respectively, totalling to 15 officers, had been outstanding as at the end of the year under review.</p>	<p>Not recovered due to the reasons that, the Guarantors are retired and gone abroad, death and non-receipt of retirement gratuity.</p>	<p>Staff Loans should be recovered.</p>