

Kotikawaththa Mulleriyawa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kotikawaththa Mulleriyawa Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, 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 provisions of the National Audit Act No. 19 of 2018 and Sub-section 172(1) of the Pradeshiya Sabha Act, No. 15 of 1987. 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 Kotikawaththa Mulleriyawa Pradeshiya Sabha as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Authorities.

1.2 Basis for Qualified Opinion

A qualified opinion on financial statements will be expressed 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 Government Authorities, and for such internal control as management determines 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 of the Pradeshiya Sabha.

1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 Pradeshiya Sabha's 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

The National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha are 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 following recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned 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 observations	Comments of the Sabha	Recommendation
(a) According to ratios of the relevant period, a sum of Rs.37,276,334 had been brought to account instead of depreciation of Rs.26,507,478 for fixed assets, thus the depreciation had been over stated in accounts by Rs.10,771,856.	That it is accepted. Necessary action will be taken to rectify through financial statements.	Necessary rectifications should be done.
(b) The value of a building of Rs.5,376,828 completed during the year, had been debited to the Work-in-Progress Account without debiting to the said account.	-----do-----	-----do-----
(c) According to details submitted by the Sabha, debtors valued at Rs.4,653,925 which should be written off as at 31 December of the year under review, had been included in the financial statements.	-----do-----	-----do-----

1.6.2 Unreconciled Control Accounts or Records

Audit observations	Comment of the Council	Recommendation
The balance of an item of accounts indicated in the financial statements amounted to Rs.9,998,590 as per the Account. However, according to the subsidiary books/ schedules relating thereto, the balance was Rs.9,951,054, thus observing a difference of Rs.47,536 between the Account and the subsidiary books/schedules.	That it is accepted. Necessary action will be taken to rectify through financial statements.	Necessary rectifications should be done.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non- compliance	Comments of the Sabha	Recommendation
Sections 3 and 128 of the Cemeteries and Burials Ordinance In terms of Section 127 of the Pradeshiya Sabha Act, No. 15 of 1987	Steps had not been taken to determine the boundaries of 05 cemeteries located within the limits of the Pradeshiya Sabha and to vest in the Sabha and publish in the Gazette.	Determination of boundaries of cemeteries owned by the Sabha has been completed by now and requests have been made to the Divisional Secretary for vesting them in the Sabha. Once receiving the said approval, action will be taken to vest in the Sabha and publish in the Gazette.	It should be published in the Gazette without delay.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over expenditure of the Sabha for the year ended 31 December 2022 was Rs.67,206,396 as compared with the corresponding revenue over expenditure of Rs. 75,111,696 of the preceding year.

2.2 Control of Revenue

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

Item of Revenue	2022				2021			
	Estimated Revenue	Billing	Collected Revenue	Accumulated Arrears as at 31 Dec. 2022	Estimated Revenue	Billing	Collected Revenue	Accumulated Arrears as at 31 Dec. 2021
	'000 Rs.	'000 Rs.	'000 Rs.	'000 Rs.	'000 Rs.	'000 Rs.	'000 Rs.	'000 Rs.
(i) Rates and Taxes	69,331	50,221	50,087	55,201	60,000	53,428	43,050	60,673
(ii) Rental	21,000	6,832	4,628	7,237	12,302	15,304	2,185	34,712
(iii) License Fees	1,700	1,700	1,450	250	1,300	631	484	147
(iv) Other Revenue	23,481	23,481	25,200	-	4,235	3,422	3,422	-
Total	<u>115,512</u>	<u>82,234</u>	<u>81,365</u>	<u>62,688</u>	<u>77,837</u>	<u>72,785</u>	<u>49,141</u>	<u>95,532</u>

2.2.2 Performance of Collection of Revenue

Audit observations

Comments of the Sabha

Recommendation

(a) Rates and Taxes

The value of rates and taxes in arrears as at the end of the year under review amounted to Rs.62,327,863.

The said 09 outstanding balances of rates comprised 02 Government properties, 01 property of which legal proceedings are in progress and moreover, it has been currently agreed to pay the outstanding balances as instalments for remaining properties.

Collection of arrears of revenue remained for many years, should be expedited.

(b) Stall Rental

The arrears of shop rental as at 31 December 2022 due from 7 stalls located in the old market and 109 stalls located in the market complex owned

The lessees have evaded the payment of these stall rentals due to revision of new stall rentals of the year 2019. The General committee had decided to recover rentals as per the assessment

Recovery of arrears of stall rentals should be expedited through alternative methods such as

by the Sabha amounted to Rs.25,303,157 and of that, the amount collected during the year was Rs.3,495,288.

remained up to the year 2021, recover 50 per cent of the assessment value of rentals of the year 2022 and to recover rentals as per the total assessment of rentals of the year 2023.

undertaking of stalls of persons who had evaded the payment of stall rentals.

(c) Court Fines and Stamp Duty

Court fines and stamp duty due from the Chief Secretary and other authorities of the Provincial Council as at 31 December of the year under review amounted to Rs.11,020,280 and Rs.266,867,232.

Schedules on court fines stamp duties recoverable have been prepared and submitted.

Action should be taken to collect stamp duties receivable.

3 Operating review

3.1 Management Inefficiencies

Audit observations

The agreement for construction of double-chamber crematorium on Kohilawatta cemetery had been signed on 11 February 2021 for a sum of Rs.49,998,655 and a sum of Rs.15,750,625 had been paid for the said work even by 21 November 2022. However, the said project had been discontinued requesting a variation of rates. Even though the said works had not been carried out as per the Agreement, a monthly loan instalment of Rs. 109,570 had to be paid to the Sabha for the loan obtained by the project.

Comment of the Sabha

A sum of Rs.15,750,624 has been paid to the contractor by 21.11.2022. The amounts paid as advances of Rs.2,518,911, Rs.1,958,380, Rs. 653,510 and Rs.4,868,928 have been recovered from the contractor by the Sabha. According to the first payment report, a sum of Rs.5,600,000 had been released to the Sabha from the Domestic Loans and Development Fund. Accordingly, a sum of Rs.109,570 is paid as loan instalments for the said loan amount.

Recommendation

According to agreements, both parties should agree with reasonable increases holding discussions thereon and works be completed expeditiously.

4. Accountability and Good Governance

4.1 Internal Audit

Audit observations

An adequate internal audit had not been carried out on constructions, works, common amenities and lands and buildings of the Sabha for the year 2022.

Comment of the Sabha

It is expected to carry out an adequate internal audit in the year 2023 on constructions, works, common amenities and lands and buildings.

Recommendation

Action should be taken to carry out an internal Audit.

4.2 Budgetary Control

Audit observations

The entire estimated provision of Rs.5,161,200 relating to 18 recurrent objects and Rs.17,793,125 relating to 11 capital objects had been saved due to failure in carrying out intended purposes or the non-requirement, allocating provision from the budget of the year 2022.

Comment of the Sabha

Instructions were given to control the public expenses as per the National Budget Circular No.03/2022.

Recommendation

Action should be taken to use the budget as an effective instrument of management control.