

Kundasale Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kundasale 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 Pradesiya Sabha 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 Kundasale Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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, 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- The Financial Statements of the Pradeshiya Sabha 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.
- 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 value of constructions and repairs estimate of Rs. 218,000 relating to 05 cases of the year under review had been capitalized.	Corrections will be made in the future.	Accuracy should be ensured in the accounting process.
(b) Despite the cancellation of the Warapitiya Public Library Development Project estimated for Rs. 650,000, that value had been capitalized.	-Do-	-Do-
(c) The value of the project related to obtaining electricity supply to the Galagoda Ayurvedic building and the construction of the side wall had been excessively capitalized by Rs.300,000, while the value of the Wavinna Public Library Development Project had been capitalized with a shortfall of Rs.100,000.	-Do-	-Do-

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| (d) | Without being entered into an agreement, the estimated value of two development projects totaling Rs. 26,000,000 of 02 Development projects had been accounted for under the creditors during the year under review. | -Do- | -Do- |
| (e) | The value of a tractor, which had been stated as Rs. 715,550 under the motor vehicles and Carts, was again stated under the motor vehicles as Rs.813,000 | -Do- | -Do- |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Sabha	Recommendation
(a) When comparing 07 items of assets stated in the financial statements with the balances shown in the schedules, there was a difference of Rs. 43,864,689.	Action should be taken to make corrections by correctly identifying the difference.	Account balances should be corrected.
(b) Although the balance of the revenue contributions to capital input account amounted to Rs. 1,379,380,149, the balance of fixed assets amounted to Rs. 1,380,448,706, resulting in a difference of Rs. 1,068,557.	Library books were not capitalized.	-Do-

1.6.3 Suspense Account.

Audit Observation	Comment of the Sabha	Recommendation
Action had not been taken to settle the balances of Rs. 15,382 that continued to exist over a long period of time.	Action will be taken to correct the balance.	Corrections should be made after identifying the difference.

1.6.4 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
(a) As the files and documents related to the advance balance of Rs. 10,772,783 shown in the financial statements had not been	Action will be taken to maintain documents accurately.	Correct schedules should be maintained.

submitted, they could not be satisfactorily verified the in audit.

- (b) Schedules pertaining to 08 assets balances totalling Rs. 334,216,894 shown in the financial statements were not submitted to audit. Schedules will be accurately maintained in the future. Files should be maintained correctly.

1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions

	Reference to laws, rules, and regulations	Non-compliance	Comment of the Sabha	Recommendation
(a)	Section 149 of the Pradeshiya Sabha Act No. 15 of 1987	Although a charge not exceeding 1 per cent of the income should be recovered from the hotels registered with the Sri Lanka Tourist Board, licence fees amounting to Rs. 21,135,367 related to the period from 2015 to 2018 had not been recovered from 02 hotels.	Action will be taken to recover the dues by filing cases.	Action should be taken in accordance with the provisions of the Act.
(b)	Section 104(3) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	The cab belonging to the Sabha had caught fire and a preliminary report had not been submitted.	As a copy of the complaint could not be obtained further actions could not be continued.	Action should be taken in accordance with Financial Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 181,233,144 for the year ended on 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.16,544,674.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

According to the information submitted by the Chairman, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	42,815,634	37,318,164	30,625,957	47,531,542	42,995,486	36,816,223	22,022,975	40,839,335
(ii) Rents	8,781,619	24,389,340	11,056,666	22,114,206	11,824,419	6,254,380	14,514,014	8,781,532
(iii) License Fees	5,985,000	3,171,436	3,171,436	-	8,801,000	2,510,362	2,510,362	-
(iv) Other Revenue	141,109,000	223,083,960	188,026,719	35,904,394	117,974,000	53,581,810	169,179,467	847,153
	198,691,253	287,962,900	232,880,778	105,550,142	181,594,905	99,162,775	208,226,818	50,468,020

2.2.2 Performance in the Collection of Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and Taxes		
The balance of rates that remained outstanding by the end of the year under review amounted to Rs. 47,475,321 and the amount due from 450 properties with arrears exceeding 10,000 totalled Rs. 22,405,446.	Activities relating to the seizing of properties are going on.	Revenue should be recovered in terms of the Act and rules.
(b) Stall Rents		
(i) The arrears of stall rent as at 31 December of the year under review amounted to Rs.4,239,976.	Action will be taken against the rent defaulters.	Action should be taken in accordance with the provisions of the Act and agreements.
(ii) Without being recovered the stall rents as per	Instructions of the	Rents should be

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| <p>the assessment dated 06 October 2021 from 33 stalls in the Digana Multipurpose Building, rents had been recovered according to a decision of the Council meeting dated 26 October 2015 and it resulted in a loss of Rs. 1,216,600 to the Sabha during the period from November 2021 up to 31 December of the year under review. Further, the Sabha had sustained a loss of Rs. 367,000 from 86 stalls at Digana Ranawiru Street due to not recovering the rents according to the assessment carried out on 27 July 2022. Consequently, the Sabha had incurred a total loss of Rs. 1,583,600 as at 31 December of the year under review.</p> | <p>Commissioner of Local Government will be sought regarding objections. recovered in accordance with the new assessment.</p> |
| <p>(iii) As the rent from 48 stalls in the Balagilla Moragahapitiya Shopping Complex had been recovered on the Sabha decision dated 30 January 2014 without being recovered the rent according to the assessment report presented on 04 September 2020, the Sabha had lost rent income of Rs. 8,235,000 from October 2020 to 31 December of the year under review.</p> | <p>The Department of Valuation has been informed of the matter. -Do-</p> |
| <p>(iv) The four-storied building in Menikhinna had been given on lease to a private institution for a period of 10 years at a monthly rent of Rs.100,000 by entering into an agreement on 01 January 2018. It had been mentioned in the valuation report dated 06 September 2022 of the Department of Valuation that the assessment of Rs.300,000 could be recovered for a period of 05 years commencing from 01 January 2018, whereas the Sabha had recovered a rent of Rs.6,000,000 for a period of 60 months up to 31 December 2022 from the year 2018 at the rate of Rs.100,000 per month. In consequent to failure to recover the rent according to the valuation report, the Sabha had sustained a loss of Rs.12,000,000.</p> | <p>The Department of Valuation has been informed regarding the objections. -Do-</p> |

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| (v) | Although it had been stated in the Circular of the Central Provincial Commissioner of Local Government No.2016/3 dated 17 March 2016 that the stalls should not be subleased, 10 stalls of the Menikhinna new shopping complex and 03 stalls on the first floor of the Menikhinna public market had been subleased. | If legal actions are taken against the individuals who subleased the stalls, the Sabha may lose the income. | Action should be taken in accordance with agreements and circulars. |
| (vi) | As the rent from 04 stalls on the ground floor of the Menikhinna public market had not been recovered according to the assessment dated 19 September 2017, the relevant stall rent for a period of 39 months from October 2019 to December of the year under review had been recovered with a shortfall of Rs.177,450. | It has been informed that the relevant money be paid after entering into a new agreement. | Stall rents should be recovered according to the new assessment. |

2.2.3 Court Fines and Stamp Duty

The Court fines and Stamp Duty receivable from the Chief Secretary of the Provincial Council and the other authorities as at 31 December of the year under review amounted to Rs.6,931,996 and Rs.23,522,834, respectively.	Action should be taken to recover the arrears.	Arrears of stamp duty and court fines should be recovered.
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3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The value of 05 receivable account balances as at 31 December of the year under review totalled Rs. 196,623,493 of which the account balances related to a period from 01 to 05 years totalled Rs. 194,352,328.	Necessary action will be taken to recover the balances in the future.	Receivable balances should be recovered.

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| (b) | The value of 02 payable account balances as at 31 December of the year under review totalled Rs.334,633,940 of which the account balances related to a period from 01 to 05 years totalled Rs.196,873,889. | Action should be taken to settle the balances in the future. | Payable balances should be settled. |
| (c) | An amount of Rs. 7,352,748 existed in the bank account maintained in favour of the Urban Development Authority had not been invested in a productive purpose. | It is anticipated to construct a vehicle park. | Money should be invested in a productive purpose. |
| (d) | The value of 03 lands owned by the Sabha had not been identified and accounted for. | Action will be taken to refer the matter to the Department of Valuation and the value cannot be identified owing to a dispute. | Ownership should be clearly taken over. |

3.2 Idle or Under Utilized Property, Plant and Equipment

Audit Observation	Comment of the Sabha	Recommendation
Three vehicles worth totaling Rs.869,900 stated in the financial statements and 02 vehicles, of which the value had not been identified, remained idle and underutilized over a period from 06 to 10 years.	Action will be taken to auction and transfer the vehicles.	Action should be taken to dispose of or transfer the vehicles.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) Action had not been taken to take over the ownership of the cab and the defender used by the Sabha and action had not been taken to register the bulldozer and the Bobcat machine.	Action will be taken to auction and transfer the vehicles.	Action should be taken to properly take over the ownership.
(b) Action had not been taken to take over the ownership of 20 plots of land utilized by the Sabha.	Action will be taken to obtain transfer orders.	Ownership should be taken over.

3.4 Irregular Transactions

Audit Observation	Comment of the Sabha	Recommendation
(a) Since the vehicle used by the Chairman had been assigned for repairs during the period from 04 October 2020 to 22 March 2022, a vehicle had been obtained on rent for the use of the Chairman without following the procurement procedure although there were 03 cabs with the Sabha, and Rs. 1,073,945 had been paid from the Sabha funds for a period of 17 months. It was observed that without obtaining the particulars such as the ownership of the selected vehicle, registration, annual licence and insurance coverage, the relevant vehicle had been obtained on a rent basis.	A long period of time has been spent to repair the vehicle and the routine duties may be interrupted if a pool vehicle is provided.	Available vehicles should be used.
(b) Although the income of Rs. 22,091,556 earned during the year 2016 by the Aluthwatta fertilizer processing and storing yard construction project, which was jointly commenced by the Kundasale and Pathadumbara Pradeshiya Sabha under the Japan assistance by signing agreements in the year 2016, should have been equally divided between the two Sabha, the amount payable to the Pathadumbara Pradeshiya Sabha had not been provided even by 31 December of the year under review.	The required expenditures will be incurred on the agreements of both parties.	Action should be taken in accordance with the agreements.

3.5 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
(a) Cadre Vacancies and Excesses When comparing the actual cadre and the actual cadre, there were 21 vacancies in 10 positions, while there were 20 excess cadre in one position.	The vacancies occurred due to the suspension of recruitment on the government policies and the attachment of Development Officers resulted in the excesses.	Vacancies should be filled.

(b) Employees Loan

A loan balance of Rs. 1,276,679 due from 07 employees who were retired, transferred, deceased and those who vacated the service during the period 2002 and 2018-2021 had not been recovered.

Action will be taken to recover the dues in the future.

Account balances should be recovered.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

When comparing the estimated income and expenditure of the budget prepared for the year under review with the actuals, variations ranging from 22 per cent to 100 per cent were observed relating to 25 items of income, while variations ranging from 29 per cent to 99 per cent were observed in relation to 23 items of expenditure. Accordingly, the budget had not been made use of as an effective instrument in control.

Comment of the Sabha

Action will be taken to correctly prepare the estimate in the future.

Recommendation

The budget should be prepared with due regard in keeping with the necessities.

4.2 Sustainable Development Goals

Audit Observation

Although the Sabha had identified sustainable development goals and targets as per the provisions of the Sustainable Development Act, No.19 of 2017, action had not been taken to achieve them.

Comment of the Sabha

Targets and indicators have been identified to a certain extent.

Recommendation

Targets and indicators should be identified and implemented.