

Kuchchaweli Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kuchchaweli Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Balance sheet as at 31 December 2022, Income and Expenditure Account, 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 National Audit Act No.19 of 2018. My comments and observations which I consider should be report 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 Kuchchaweli Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion regarding financial statements 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 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 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 also:

- 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 Relevant 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 Relevant 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 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented 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 financial statements presented includes 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) The amount payable for 05 capital activities under the Local Development Supporting Project (LDSP) amounting to Rs.18,228,490 was not shown in the financial statements.	Action will be taken to correct.	That value should be shown in the financial statements.
(b) The total types of items donated by two organizations amounting to Rs.507,330 in the year under review was not shown in the financial statements.	- Do -	Donated assets should be disclosed in the financial statements.
(c) Distress loans of Rs.199,700 recovered from employees during the year under review had not been deducted from the accounts.	- Do -	Distress loans recovered from employees should be deducted from the individual loan balances.
(d) As on December 31 of the year under review, 57 items of consumer goods totaling Rs.196,576 were not disclosed in the financial statements.	- Do -	Consumer goods should be disclosed in the financial statements.
(e) Assessment tax rebates of Rs.563,007 granted by the Sabha during the year under review were not shown as an expenditure in the financial statements.	- Do -	Assessment tax rebates should be shown as an expenditure in the financial statements.
(f) Audit fees payable for the periods 2020 and 2021 amounting to Rs.146,222 were not disclosed in the financial statements.	- Do -	Audit fees payable should be shown as a liability in the financial statements.
(g) The sum of Rs.4,241,510 of salaries paid to employees and allowances paid to members for the month of December of the year under review was not shown as in reimbursement expenditure in the financial statements.	- Do -	reimbursed expenses should be disclosed in the financial statements.

1.7 Non- Compliances

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

Reference to Laws, Rules Regulations etc...	Non-compliance	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
(i) Section 126 (vii) (f).	No action was taken to collect advertisement fees from the billboards in the area.	Advertising charges are being charged.	Actions should be taken to charge advertising fees.
(ii) Section 134	Actions were not taken to identify new assessment units in the area.	Actions are being taken.	Actions should be taken to identify new sources of income in the area.
(iii) Section 149	No action was taken to collect license fees from 09 approved tourist resorts.	- Do -	Actions should be taken to collect license fees from approved tourist resorts in tourist board by enacting By-laws.
(iv) Section 166	No action was taken to issue warrants against property owners who did not pay rates and taxes amounted to Rs. 22,933,000.	Actions are being taken at present.	Actions should be taken to issue warrants against property owners who do not pay property taxes.
(b) Sentence 20 of rating and Valuation Ordinance No. 30 of 1946	No action was taken to asses Land and buildings in the area once in 05 years and levy taxes.	-Do-	Action should be taken to assess once in 05 years. and levy taxed.
(c) Pradeshiya sabha (Finance and Administration) Rules 1988 Rule 193	The statement containing the details of income and expenditure for the year under review, comparing with the budget and explaining the variances was not prepared and submitted for audit.	It will be prepared and presented in future.	A statement should be prepared comparing income and expenditure, it details with the budget and explaining the variances.

- (d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) F.R. 571 The lapsed deposits of Rs. 32,138,086 for many years had not been settled. According to the decision No. 57/28 of the council meeting dated 30.12.2022, as per the decision No. 39/31 of the meeting dated 30.06.2021, it has been decided to transfer the deposits to income. Financial regulations should be followed.
- (ii) FR 371 (2) 03 advances paid of Rs.314,710 were not settled for more than 08 months. At present Audit and Management meeting has decided to establish a committee and settle. -Do -
- (e) Public Administration Circular No. 03/2017 dated 19 April 2017 The council had paid Rs.308,885 as holiday pay to 14 officers and overtime allowance to 10 officers without verifying attendance through fingerprint machines. Actions are being taken to correct. Circulars should be followed.
- (f) Ministry of Public Administration and Management Circular No. 18/2001 dated August 22, 2001 Although a period of 07 to 27 years had elapsed of 73 officers who completed a continuous service of 05 years and were not transferred, No actions were taken to transfer them. Actions are being taken to correct Necessary action should be taken as per the circular.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent of the Sabha for the year ended 31 December 2022 amounted to Rs. 34,206,395 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 50,869,884 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the Sabha relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Revenue Collected	Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	22,224	32,791	9,866	22,925	16,000	14,980	7,347	17,506
Rent	8,382	16,571	2,656	13,915	7,937	8,824	6,715	9,472
License Fees	5,975	1,987	1,987	--	1,624	1,188	1,188	--
Other revenue	<u>1,943</u>	<u>3,058</u>	<u>4,304</u>	<u>(1,246)</u>	<u>763</u>	<u>242</u>	<u>400</u>	<u>1,115</u>
Total	<u>38,524</u>	<u>54,407</u>	<u>18,813</u>	<u>35,594</u>	<u>26,324</u>	<u>25,234</u>	<u>15,650</u>	<u>28,093</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) The outstanding assessment tax balance at the beginning of the year under review was Rs.17,506,000 and the collections during the year were Rs.2,682,447.	The arrears were due to the Easter Sunday attack, the bad economic crisis in the country, rising prices, rising fuel prices. That will be corrected in the future.	Necessary action should be taken relating to outstanding balances.
(b) Rent receivable as on December 31, of the year under review was Rs.12,261,000. Of this, Rs. 12,179,493 remained in arrears for more than 10 years.	Actions are being taken to correct.	Necessary actions should be taken to recover the arrears.
(c) Registration fees of Rs.60,000 due in the year under review had not been collected from the places declared as three-wheeler parking lots According to the special gazette notice issued on January 07, 2022.	Actions are being taken.	- Do -
(d) Due to the failure of Sabha to collect stamp duties of Rs.13,367,466 due from the Secretary of the Provincial Council and other authorities, the entire amount was transferred to the income account of the Provincial Council Fund.	Efforts were made to collect all stamp duty as possible. Information about this is not known.	Necessary actions should be taken to recover the income belonging to the prescribed period.

3 Operational Review

3.1 Management inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) As per Section 16 of the Employees' Provident Fund (EPF) Act No. 46 of 1980, for the period from 2010 to 2014 and for the year under review, Rs.2,005,306 had to be paid as penalty due to non-payment of contribution on time.	Efforts have been made to recover from the concerned persons.	Necessary actions should be taken
(b) Under the Local Government Development Support Program (LDSP) in the year under review, 16 electronic equipment worth Rs.996,000 granted to the Pulmude Public Library had not been used.	Actions are being taken to use 16 electronic devices	- Do -
(c) In the year under review and in the previous year, electricity charges for street lights amounting to Rs.7,892,527 due to the Electricity Board were not paid .	Due to the income deficit of the Sabha at present, it will be dealt with in the future.	Necessary action should be taken regarding electricity charges for street lights.
(d) 03 machines purchased for 2,000,000 rupees under the local government assistance project for the purpose of improving the production of organic fertilizers, were not utilized by the Sabha for the relevant purposes.	Actions are being taken to utilize for the purpose.	It should be utilized appropriately.
(e) 5,720 tons of solid waste collected in the area was unsorted and dumped in an improper manner in the Kuchchaveli area.	Necessary measures are being taken to sort and collect.	Necessary action should be taken to sort and collect.
(f) Cost of 187 items sold in the year under review had not been deducted from non-current assets in the financial statements.	- Do -	Cost of goods sold should be deducted from non-current assets in the financial statements.
(g) No steps were taken to identify the properties used by the Sabha and taken them over to the Sabha.	Action will be taken to identify the property.	Action should be taken to identify the property.

3.2 Asset Management

Audit Observation	Comments of the Sabha	Recommendation
(a) The Sabha had not arranged to use the public trade complex which was built in the year 2012 at a cost of Rs.24,444,588, consisting of 35 shops from the beginning.	Through LDSP project, It will be converted into a paddy mill in the future.	Necessary action should be taken.
(b) No action was taken to transfer the ownership of 13 vehicles used by the Sabha for more than 35 years.	Actions will be taken to transfer.	The ownership of vehicles should be taken over.
(c) No actions were taken to repair and reuse 22 vehicles owned by the Sabha or to sell them at auction	The current financial situation will be taken into consideration and will be repaired in the future.	Necessary actions should be taken.

3.3 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
As on December 31 of the year under review, there were 22 vacancies and 02 surplus employees in the Sabha.	One officer has been temporarily transferred. The other officer has also applied to go abroad.	Necessary action should be taken

4. Accountability and Good Governance

4.1 Presentation of Financial Statement

Audit Observation	Comments of the Sabha	Recommendation
According to the Provincial Treasury Circular No. PT/18/2022 dated December 15, 2022, it was stated that the financial statements should be submitted to the Auditor General on February 28, 2023, but the Sabha had submitted the financial statements of the reviewed year for audit on August 03, 2023.	In the future, such errors will not occur and will be submitted in due time.	Circulars should be followed.

4.2 Annual Action Plan

Audit Observation

An annual action plan was not prepared for 40 industries which should have been fulfilled by the Sabha as per the annual budget.

Comments of the Sabha

Action will be taken in the future.

Recommendation

Necessary action should be taken

4.3 Internal Audit

Audit Observation

In the year under review, an internal auditor was appointed by the Sabha, but no audit activity was carried out.

Comments of the Sabha

Necessary action will be taken to carry out the audit subject.

Recommendation

Relevant measures should be taken to carry out internal audit functions