

Karaitivu Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karaitivu 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 Karaitivu 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 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 Practicals, 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 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 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 includes specific provisions for following requirements.

- 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.
- 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 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs.2,746,422 of wages and membership allowances due for the month of December of the year under review were not disclosed in the financial statements.	That the above matter will be taken into consideration in the preparation of the accounting statements for the next financial year.	Financial statements should be prepared accurately.
(b) Advances of Rs.295,000 received for rent of cultural pavilions during the year under review was not shown in the financial statements.	-Do-	-Do-
(c) Four constructions amounting to Rs.1,300,000 done by the financial allocation of the Local Government Department were not capitalized during the reviewed year.	-Do-	-Do-

- (d) A sum of Rs.1,056,992 payable to the Local Credit Development Fund was not shown in the financial statements as non-current liabilities at the end of the year under review. Also, the value of the wall surrounding the cultural pavilion amounting to Rs.1,777,911 which was built with this loan was not capitalized under land and buildings. -Do- -Do-

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess expenditure over recurrent revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.4,948,029 as against the excess of income over recurrent expenditure amounted to Rs.3,947,941 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 submitted by the Sabha, information 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	Revenue Billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	25,000	3,000	3,000	-	25,000	-	-	-
ii. Rent Income	8,275,000	6,353,768	4,567,470	1,786,297	7,920,000	5,577,924	4,364,145	1,893,741
iii. License Fees	3,355,000	3,286,750	3,286,750	-	3,808,500	2,713,043	3,243,043	2,695,342
iv. Other revenue	6,530,000	2,630,622	2,630,622	-	9,723,000	8,387,895	8,387,895	-
Total	<u>18,185,000</u>	<u>12,274,140</u>	<u>10,487,842</u>	<u>1,786,297</u>	<u>21,476,500</u>	<u>16,678,862</u>	<u>15,995,083</u>	<u>4,589,083</u>

2.2.2 Performance in Revenue Collection

The observations regarding performance in all revenue collection of the Sabha is shown below.

Audit Observation	Comments of the Council	Recommendation
(a) Rent		
(i) Night market and beach park rents receivable at the end of the year under review was Rs.75,843 and which remained from 01 to 14 years without recovery.	That since the Beach Garden lease owner is deceased; further steps will be taken to recover it.	Steps should be taken to recover the dues promptly.
(ii) The amount due from leasing of meat stalls on tenders at the end of the year under review was Rs.1,680,407. Out of that a sum of Rs.442,773 had to be collected from 23 meat shop tenants for more than 26 years.	That the unrecognizable amount will be written off.	Steps should be taken to collect or write off the revenue due immediately.

3. Operational Review

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The Sabha had not been taken any action to rent out 17 shops in the mall which was built under the South West Coast Community Development Project at a cost of Rs.14,347,200 and handed over to the Sabha in the year 2009.	That no one came forward to rent the stalls due to the low number of customers at the place.	A systematic plan should be drawn up and action taken to rent out stalls on the beach.
(b) There was no written agreement containing the terms and conditions for renting out the cultural hall belonging to the Sabha. Furthermore, 04 air conditioners amounting to Rs.2,583,960 were installed on 19 May 2022, with the aim of increasing the rent income of the Sabha by increasing the use of the cultural pavilion by providing air conditioning facilities and it had not been used to provide air-conditioned services to the public and increase rental income as at the date of audit.	That the above work will be fully completed by making allocations from regional development funds.	Arrangements should be made for the fully completion of the above work by making provision through regional development funds.

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| (d) | Action had not been taken to collect Rs.651,420 from 633 families as at 31 December of the year under review. | That it will be fully recovered in the near future. | Solid waste charges should be collected systematically. |
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3.2 Assets Management

Audit Observation	Comments of the Council	Recommendation	
(a)	The Sabha's office building, the land on which the cultural hall is located and the land on which the solid waste disposal center is located had not been taken over in the name of the Sabha till the date of audit.	That the ownership of the land used by the Sabha is being transferred.	Steps should be taken to transfer ownership of the land used by the Sabha.
(b)	The value of 29 vehicles belonging to the Sabha had not been revalued and its actual value was not accounted for.	That the value of the vehicles will be revalued.	Action should be taken to revalue the vehicles.
(c)	The Sabha has not taken steps to repair and reuse 04 lorries, 04 tractors and 02 motorcycles owned by the Sabha, for more than 5 years.	Action will be taken to repair and reuse the vehicles and selling other vehicles at auction.	Actions should be taken to repair and reuse or dispose of vehicles appropriately.

3.3 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
The Sabha has not taken action to recover the outstanding loan balance of Rs.32,860 from those persons or from the guarantors since the year 2006.	That action was taken to recover outstanding loan balances from officials.	Steps should be taken to recover outstanding loan balances from officials promptly.

4. Accountability and Good Governance

4.1 Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
No action was taken to use the multi-chopper machine purchased at a cost of Rs. 289,750 for the purpose of improving organic fertilizer production.	That the machine has been fixed at present.	Efforts should be made to improve the production of organic fertilizers.