

## **Kotapola Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kotapola Pradeshiya Sabha for the year ended 31 December 2023 comprising the financial position as at 31 December 2023 and statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and notes to 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 subsection 172(1) of the Pradeshiya Ssbhas 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 presented in 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 Kotapola Pradeshiya Sabha as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified based on 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 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 Principles 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 Section 16(1) of 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 Sabha.

#### 1.4 Auditor's Responsibilities 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 judgement and maintain professional skepticism throughout the audit. I also

- Appropriate audit procedure 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 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 discussions issued by the governing body of the company
- 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 the other legal requirements

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

- Financial statements of the Municipal Council are consistent with the preceding year as required by Section 6 (i) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me in the preceding year in accordance with Section 6 (i) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented.

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
a) The interest of Rs. 1,495,325 received on 03 fixed deposit accounts in the year under review with respect to the preceding year, had been brought to accounts as an income of the year under review.	Corrective measures will be taken in due course.	Accuracy should be ensured in accounting.
b) The interest receivable on 03 fixed deposits and balance of 03 fixed deposits had been overstated in accounts by Rs. 789,624 and Rs. 1,653,626 respectively.	Corrective measures will be taken in due course.	Accuracy should be ensured in accounting.
c) The receivable stamp fees of Rs. 12,091,250 verified as income through schedules with respect to Land Registrar's Offices in Matara and Kotapola, and court fines of Rs. 994,091 due for the last 03 months of the year under review, had not been brought to accounts as income.	The stamp fee of Rs. 262,000 recommended by the Provincial Department of Revenue had been brought to accounts, and the court fine income of Rs. 991,091 which had not been recommended, was not brought to accounts.	Accuracy should be ensured in accounting.
d) The stamp fee income receivable for the preceding years amounted to Rs. 12,514,500 but that amount had been adjusted as Rs. 4,874,000. As such, the stamp fee income had been understated by Rs. 7,640,500 in the accounts.	Corrective measures will be taken in preparing the final account of the ensuing year.	Should be brought to accounts correctly, and recovery should be made.

- e) Sixty eight items of inventory and consumable items valued at Rs. 118,749 had been accounted for under furniture and fittings and 39 items valued at Rs. 104,165 had been brought to accounts under machinery whilst the CCTV system worth Rs. 519,740 installed at the premises of the Sabha had not been brought to accounts under fixed assets. Corrective measures will be taken in due course. Accuracy should be ensured in accounting.

### 1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Five items of accounts valued at Rs. 51,472,021 could not be satisfactorily examined in audit as essential information had not been made available.	Corrective measures will be taken in due course.	Evidence verifying the account balances shown in the financial statements, should be furnished.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the recurrent income amounted to Rs. 1,356,373 for the year ended as at 31 December of the year under review whereas the recurrent expenditure in excess of the recurrent income amounted to Rs. 5,833,966 for the preceding year.

### 2.2 Revenue Administration

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

Source of Revenue	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 Dec	Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 Dec
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	2,014,000	2,653,246	2,616,855	1,082,036	2,113,000	1,742,876	1,893,544	1,045,645
(ii) Lease Rents	13,617,000	8,685,888	8,962,047	990,729	6,610,000	4,613,649	4,888,161	1,266,888
(iii) License Fees	2,112,000	1,484,769	1,484,769	-	2,837,000	298,247	298,247	-
(iv) Other Income	16,200,000	13,627,853	14,112,794	1,906,882	13,947,000	4,122,398	4,087,785	2,391,823
<b>Total</b>	<b>33,943,000</b>	<b>26,451,756</b>	<b>27,176,465</b>	<b>3,979,647</b>	<b>25,507,000</b>	<b>10,777,170</b>	<b>11,167,737</b>	<b>4,704,356</b>

## 2.2.2 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
<p>a) The outstanding balance of rates amounted to Rs. 60,285 at the beginning of the year, and a sum of Rs. 677,716 remained recoverable including a sum of Rs. 617,431 billed for 850 units. As the total recoveries during the year amounted to Rs. 569,636 there existed an outstanding balance of Rs. 108,080 related to 07 units of rates by the end of the year. The balances amounting to Rs.140,414 out of the above remained due since a period from 02 to 05 years.</p>	<p>Action will be taken to recover the outstanding balance.</p>	<p>Outstanding revenue should be recovered without delay.</p>
<p>b) Kotapola North and Kotapola South had been identified as areas to be developed, but action had not been taken to recover rates by assessing the properties.</p>	<p>Action is being taken to publish in the Gazette dated 22 February 2024 , prepare reports on properties, and make assessments.</p>	<p>Action should be taken in accordance with the Act.</p>
<p>c) The outstanding balance of acreage tax amounted to Rs. 70,358 at the commencement of the year. Inclusive of the billed sum of Rs. 40,956, a sum or Rs. 111,314 remained recoverable. As only a sum of Rs. 47,440 had been recovered during the year, there existed an outstanding balance of Rs. 63,874 by the end of the year.</p>	<p>Visits to the lands are conducted in view of further recovering acreage tax, and action is being taken to write off the balance which cannot be recovered in that manner.</p>	<p>Outstanding revenue should be recovered without delay.</p>
<p>d) The outstanding balance of business tax amounted to Rs. 495,870 at the commencement of the year. Inclusive of the sum of Rs. 1,972,860 billed during the year under review, a sum of Rs.2,468,730 remained recoverable. As only a sum of Rs. 1,977,780 had been recovered during the year, there existed an outstanding balance of Rs. 490,950 by the end of the year. A sum of Rs. 304,070 representing 62 per cent of the total outstanding amount remained further recoverable with respect to the preceding years as at the end of the year.</p>	<p>A sum of Rs. 74,200 had been recovered by 30 April 2024 out of the due amount as at the end of the year under review.</p>	<p>Outstanding revenue should be recovered without delay.</p>

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| e) | A lease rent of Rs. 723,919 due from 03 fish stalls of the Sabha over 02-05 years, had not been recovered in the year under review as well.                                  | Cases had been filed at court for recovery of the due and those cases are now in progress.   | Outstanding revenue should be recovered without delay. |
| f) | Court fines amounting to Rs. 329,753 remained recoverable as at 31 December of the year under review from the Chief Secretary and other officials of the Provincial Council. | Court fines relating to September 2023 recoverable as at 31 December of the year under review, had been received on 04 January 2024. | Outstanding revenue should be recovered without delay. |

### 3. Operating Review

#### 3.1 Execution of Duties Vested through the Act

The following matters were observed with respect to the execution of duties by the Municipal Council in terms of Section 03 of the Pradeshiya Sabhas Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

Audit Observation	Comment of the Sabha	Recommendation
a) Contrary to Section 126 of the Pradeshiya Sabhas Act No. 15 of 1987, by-laws had not been made with respect to approval of building plans within non-urban areas, sub-division of lands, renting of auditorium, and recovery of revenue from "Burusgala" of Fadna.	As deficiencies were pointed out once the draft by-laws had been prepared and forwarded to the Assistant Commissioner of Local Government, the preparation of by-laws had become halted half-way. The process will be completed with assistance of the Investigation Officer.	By-laws should be made without delay.
b) A permanent and proper waste management project had not been implemented even in the year under review for recycling the non-degradable waste from the garbage of 06 tons collected daily within the area of the Sabha.	As there exist no facilities to clean the polythene as required by the buyers, polythene is kept stored. The other non-degradable waste is buried. Once the requested incinerator is received, the non-degradable waste would be destroyed by burning in an environmentally-friendly manner.	A proper waste management plan should be put in place.

### 3.2 Identified Losses

Audit Observation	Comment of the Sabha	Recommendation
Action had not been taken in terms of Financial Regulation 104 to identify the parties responsible for the 170 defected chairs out of 1300 Phoenix Nelum plastic chairs purchased on 10 April 2019 at an expenditure of Rs. 900,900, thus failing to recover the loss.	As documentary evidence could not be found relating to the misplacement of chairs, shortage in the stock of chairs could not be addressed. A Committee has been appointed chaired by the Investigation Officer in terms of Financial Regulations 103 and 104. Action will be taken to avoid recurrence of similar situations in due course.	Financial Regulations should be followed.

### 3.3 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Having stated that the JCB Machine obtained from a private institution in the year 2009 at the expenditure of Rs. 7.2 million had been defective, a case had been filed at the Commercial High Court, Western Province in the year 2012, and a sum of Rs. 765,250 had been paid from the Sabha Fund on legal charges. However, the Sabha had been defeated in the case, and the legal consultancy firm had informed in the year 2022 that an appeal be filed at the Supreme Court in that connection, but the measures taken thereon had not been made available to the Audit. No investigations had been done in that connection thus far.	Although being informed that an appeal be filed at the Supreme Court, the Sabha had not paid legal consultancy fees in that connection. None of the Committee members appointed to look into this vehicle had participated in the investigation until 27 April 2024.	The measures proposed should be taken without delay.

### 3.4 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
a) Action had not been taken to recover the charges equivalent to 1 per cent from 05 hotels and cafeterias in the authoritative area of the Sabha relating to the period 2020-2023. A sum of Rs. 1,018,580 remained recoverable from a certain institution with respect to the year of accounts,	There were 05 hotels approved by the Board of Tourism, and 03 of them had obtained licenses by paying the fees. Although a case had been filed against one of the institutions, the lessee had been deceased during that time, and the new lessee had been informed that the license be obtained by paying the fee. The other institution faced bankruptcy in the wake of economic crisis, and hence, it was allowed to settle the fees in installments.	The Act should be followed.

2019, but only a sum of Rs. 707,996 had been recovered. As such, a sum of Rs. 310,584 remained further recoverable even as at 12 February 2024.

- b) Without obtaining a development license, a single-storied building in extent of 52.14 square meters had been constructed without conforming to the limit of 50 feet from the center of the Deniyaya-Pallegama main road in the urban area of the authoritative area of the Sabha
- As the relevant area is less than 06 perches in the allotment plan relating to the Building Application No. KPS/UDA/2022/02, letters had been sent by the District Committee of the Urban Development Authority stating that approval could not be granted.
- Action should be taken in accordance with the Gazette Notification.
- c) It was found in examining the development license granted to construct a 02 storied commercial building at the location of No. 310/02, Pallegama Road, Deniyaya that a 03 storied building including the roof top had been under construction within the 32 feet limit from the center of the Deniyaya-Pallegama main road. The area of the ground floor should have been 94.39 square meters as per the approved building plan, but the actual area of the building was 116.6 square meters.
- The building plan had been presented by including the roof top for the first floor. As constructions had been made by deviating from the plan, it was informed that a revised plan be submitted. The Makandura office of the regional engineer had informed that construction from a distance of 35 feet from the center of the Deniyaya-Pallegama main road would be recommended.
- Action should be taken to either formalize the unauthorized constructions or demolish them.



### 3.5 Transactions of Contentious Nature

Audit Observation	Comment of the Sabha	Recommendation
Although there existed no legal provisions for making payments to private parties in respect of providing transport facilities for the officers to take part in trade union conventions, a sum of Rs. 88,900 had been paid from the Sabha Fund to private parties for providing transport facilities for 07 officers of the Pradeshiya Sabha who had participated in annual convention-2023 of the Provincial Public Management Service officers held at Sarvodaya, Batticaloa on 29 July 2023.	All the documents such as letter requesting the participation in the convention issued subject to the approval given by the Letter No. G/SP/4/3/8/06 of the Governor dated 06 September 2023, letter requesting fares of train and letter for verifying the participation of officers had been examined, and payments had been made in accordance with Section 02 of Chapter XXV of the Establishments Code.	Action should be taken in accordance with Establishments Code, Financial Regulations, and Circulars.

### 3.6 Inefficiencies in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
a) As for the 02 works of developing roads by laying stones under the rural road development project in the year 2021 at an expenditure of Rs. 1,446,020 the road sides had not been constructed to the required height. As such, an excess amount of Rs. 59,562 comprising a sum of Rs. 36,330 on 1.86 cubic meters of concrete at Rs. 19,532.25 per cubic meter and a sum of Rs. 23,232 for 25.05 square meters of formwork due to formwork not conforming to the required height, had been mentioned in the bills.	Action has already been taken to recover the sum of Rs. 32,652 included in the bill relating to the development of H.G. Road, Ihalagama out of the said 02 works.	Payments should be made only for the works done.
b) When developing the Dandeniyahena Road by laying concrete at an expenditure of Rs. 919,717 under the Southern Provincial Development Plan in the year under review, a sum totalling Rs. 40,208 had been paid to the contractor for mining 21.75 cubic meters of soil at Rs. 1,848.65 per cubic meter under Item No. 01 or work – lowering the surface of road by 0.10 meters prior to laying concrete.	Due to inadequacy of time to reply for the audit observation, an additional period of 02 weeks have been requested.	Payments should be made only for the works done.

Nevertheless, it was found at the field inspection carried out on 12 February 2024 that soil had not been removed from the surface of the road prior to laying concrete.

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| c) | The works of installing an Arpico Plastishell Hybrid Double Layer plastic water tank of 500 liters and installing 02 commodes of Otto or Rocell or equivalent brand under 02 items of work in the development of common lavatory facilities at the Hanford Estate at an expenditure of Rs. 312,499, had not been executed in conformity to the relevant work description. However, a sum of Rs. 29,470 had been paid to the contractor. Furthermore, an overpayment of Rs. 13,474 had also been made to the contractor although works mentioned in the BOQ under 05 items of work had not been executed. | Due to inadequacy of time to reply for the audit observation, an additional period of 02 weeks have been requested. | Payments should be made only for the works done.  |
| d) | It is the responsibility of the contractor to construct a temporary bridge with respect to the contract granted to him by the Road Development Authority to replace the old bridge of Mederipitya with a new one. However, the Kotapola Pradeshiya Sabha had spent a sum of Rs. 420,604 from the Sabha Fund for the supply of cement and on charges for the Crane.   | Due to inadequacy of time to reply for the audit observation, an additional period of 02 weeks have been requested. | Payments should be made only for the contractors with whom agreements have been entered into. |