

## **Kelaniya Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1. Qualified Opinion**

The audit of the financial statements of the Kelaniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of Changes in Net Assets/Equity, 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 Sub-Section 172 (1) of the Pradeshiya Sabhas 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 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 Kelaniya Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **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 Sri Lanka Public Sector Accounting Standards 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 to be prepared.

#### **1.4. Scope of Audit (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:

- Identified and assessed 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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 is also extended to examine the following, as far as possible and as far as necessary;

- 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 include 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

### 1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non-compliance with reference to the relevant Standard	Comments of the Council	Recommendation
In terms of Chapter 3.26 of the Standard, the value of net increase in cash and cash equivalents in the cash flow statement had been understated by Rs.1,804,493.	That it will be accurately prepared in future.	The cash flow statement should be prepared accurately.

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) Even though the balance of 3 Items of Accounts was Rs.51,660,622 according to financial statements, it was Rs.57,986,132 according to schedules. As such, a difference of Rs.6,325,510 was observed.	That the difference will be looked into	Differences should be identified and rectified thereafter.

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| (b) | Even though the value of net assets amounted to Rs.3,123,804,710 according to the statement of assets and liabilities, it was Rs.3,126,414,340 as per Note No.19. As such, a difference of Rs.2,609,630 was observed. | That it will be prepared accurately in the coming years | -do- |
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## 1.7 Non-compliances

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

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions appear below.

	<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Rating and Valuation Ordinance No.30 of 1946	Rates for the year under review had been recovered based on the assessment carried out in the year 2009.	That revision of rates assessment has been commenced	The assessment should be made to carry out and recoveries be made according to new assessment rates.
(b)	Section 21(3) of the Rent Act, No.7 of 1972	A sum of Rs.184,809 payable during the period from the year 2017 to the year 2023 to 24 tenants had not been paid.	Even though letters have been sent out to landlords, money has not been obtained.	Landlords should be informed and relevant money paid.
(c)	Financial Regulation 371 of the Democratic Socialist Republic of Sri Lanka	The value of 45 advance balances amounting to Rs.1,880,535 had not been recovered.	That it will be rectified.	Action should be taken in terms of Financial Regulations.

- (d) Order No.08 on The financial statements That it is accepted Action should be taken as per Orders.
- accounts should be presented to the Auditor General on or before 28 February of the following financial year. However, the financial statements for the year under review had been presented only on 02 May 2024.

## 2. Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.411,945,994 as compared with excess of revenue over expenditure amounting to Rs.111,371,688 in the preceding year.

### 2.2 Control of Revenue

#### 2.2.1 Revenue estimated, billed, collected and in arrears

According to the information presented by the Secretary, details on revenue estimated, billed, collected and in arrears relating to the year under review and the preceding year are as follows.

	Source of Revenue	2023			Total Arrears as at 31 December	2022			Total Arrears as at 31 December
		Estimated Revenue	Billed Revenue	Collected Revenue		Estimated Revenue	Billed Revenue	Collected Revenue	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	71,951,100	70,179,783	78,214,936	42,836,295	71,000,000	62,635,232	14,462,268	48,998,852
(ii)	Rentals	30,160,875	29,956,398	31,737,215	11,446,625	28,175,400	31,913,924	30,789,868	22,830,680
(iii)	Licence Fees	1,000,000	1,329,862	1,271,269	58,593	5,700,000	3,426,652	3,426,652	-
(iv)	Other Revenue	418,427,700	-	706,017,533	-	8,750,000	13,448,854	13,448,854	733,489
		=====	=====	=====	=====	=====	=====	=====	=====
		521,539,675	101,466,043	817,240,953	54,341,513	113,625,400	111,424,662	62,127,642	72,563,021
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## 2.2.2 Performance of Revenue Collection

The observations on the performance of revenue collection of the Sabha appear below.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) According to Age Analysis, the arrears of rates as at the end of the year under review amounting to Rs.42,836,295 comprised balances of Rs.10,955,223 for a period over 10 years and Rs.11,990,480 for a period between 5 and 10 years.	That recoveries are being made through mobile programmes and other programmes	Arrears in rates should be recovered.
(ii) According to the Report on Arrears of Revenue, as a sum of Rs. 20,273,377 of the arrears of rates amounting to Rs.47,166,492 had been recovered as at the commencement of the year under review, the percentage of recovery had been as low as 43 per cent.	-do-	-do-
(iii) Arrears of lease relating to lands and buildings as at the end of the year under review amounting to Rs.945,253 comprised balances of Rs.771,184 for a period between 1 and 3 years and Rs.111,639 for a period less than 1 year had not been recovered even by 02 May 2024.	That recoveries are being made	Arrears of lease relating to lands and buildings should be recovered.

- (b) Rentals
- (i) Arrears of rentals of trade premises as at the end of the year under review had been Rs.1,714,507 for a period over 5 years and Rs.266,972 for a period between 3 and 5 years. That recoveries will be made as per objection inquiries Arrears of rentals of trade premises should be recovered.
- (ii) Arrears of rentals for other premises had been Rs.187,193 as at the commencement of the year under review while recoveries during the year was Rs.15,000, thus representing the percentage of recovery as low as 8 per cent. That action will be taken to rectify defects Arrears of rentals should be recovered from other premises.
- (iii) The arrears of rentals amounting to Rs.733,489 occurred when the reception hall of the Sabha was leased out in the year 2004, had not been recovered even by 31 December 2023. That action is being taken to obtain a court order for the party who was not allegiant to the judgement Arrears of rentals should be recovered.

### 3. Operating Review

#### 3.3 Performance of Functions assigned by the Act

Audit Observation	Comments of the Council	Recommendation
(a) As 16 activities valued at Rs.18,050,000 of the community development division had not been implemented, the performance had been only 41 per cent.	That 16 activities could not be implemented.	Action should be taken as per the Action Plan.
(b) Environmental licences had not been obtained as per the Gazette Extraordinary No.2264/18dated 27 January 2022for 4 crematoriums operated by the Sabha.	That applications and documents have been perfected and forwarded to the Central Environmental Authority	Action should be taken as per the Gazette.

### 3.4 Management Inefficiencies

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Action had not been taken to identify 29 items of exercise equipment remaining in the fitness centre of the Polhena ground as fixed assets and to bring them to account.	Action will be taken in future to enter them in schedules and for revaluation.	They should be entered in registers of fixed assets and brought to account.
(b)	The estimated value of indemnity amounting to Rs.2,422,762 of the JCB machine which met with an accident in the year under review had not been received even by 02 May 2024.	That repairs had been completed and forwarded to the National Insurance Trust Fund for claiming benefits.	The indemnity relating to repairs should be claimed and the machine should be made use of.

### 3.5 Idle and Underutilized Property, Plant and Equipment

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Three assets valued at a total of Rs.12,654,114 had been removed from use during a period between 5 and 8 years	Approval has been requested from Commissioner of Local Government (W.P.) to provide 2 machines to another Sabha and action will be taken to dispose of the remaining machine	Action should be taken to vest with another Sabha, to auction or to dispose of.
(b)	The Hunupitiya crematorium which has been inoperative over a period of about 03 years, had not been repaired.	The quotations called for exceeds Rs.50 million. Arrangements are being made for repairs in the year 2024.	Should be repaired and made use of.
(c)	Nine trailers with decayed numbers, 3 hand carts and a gully bowser had not been properly disposed of.	Action is being taken to dispose of.	Assets which cannot be made use of, should be properly disposed of.

### 3.6 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Plans and legal documents to confirm ownership were not available respectively for 21 and 76 lands used by the Sabha.	Action will be taken to prepare plans and deeds of publication	Plans should be prepared and confirmed ownership.
(b) Buildings on 05 crematoriums had not been entered in fixed registers and brought to account.	Will be revalued and entered in the financial statements	Relevant assets should be documented and brought to account.
(c) Three machines which were valued at Rs.34,000 according to financial statements, could not be found physically.	That it could not be stated whether the same machines have been documented.	Action should be taken to accurately identify assets owned, in the financial statements.
(d) Six trailers without number plates, were being used.	Action will be taken to obtain number plates.	Action should be taken to fix number plates.

### 3.7 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
Arrears of staff loans of 11 officers who had been interdicted, left the service, deceased and retired, had been Rs.1,318,990.	The officers who were interdicted have been sent reminders and that the guarantors of officers who left the service had either retired or proceeded abroad and the gratuities of officers deceased and retired have not been received.	Staff loans should be recovered.