

Kanthale Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kanthale Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and statement of financial operations, cash flow statement for the year then ended and notes to the financial statements including material accounting policy information 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 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

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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 Kanthale Pradeshiya Sabha as at 31 December 2023 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 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 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 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.

- (a) 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.
- (b) 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 Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the stamp duty receivable was Rs.2,625,150, the stamp duty amount was understated by Rs.1,153,565 as the account showed it as Rs.1,471,585.	The stamp duty due up to the year 2022 is Rs.1,471,585 and due to the fact that the stamp duty related to the year 2023 cannot be found, incorrect accounting has	Accounts should be correctly prepared.

occurred and will be corrected in the future.

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| <p>(b) An amount of Rs.179,661 spent on the partition of the administrative building of the office was not capitalized.</p> | <p>That the value of allocation of administrative buildings of the office will be taken into account in preparing the final accounts of 2024</p> | <p>- Do -</p> |
| <p>(c) Fixed deposit interest receivable of Rs.171,411 for the year under review was not shown as balances receivable in the accounts.</p> | <p>Fixed deposit interest income 2024 will be taken into accounts by correcting errors in preparing the final accounts</p> | <p>- Do -</p> |
| <p>(d) Funds amounting to Rs.28,797,053 received from the Local Development Support Project (LDSP) by the Pradeshiya Sabah Fund during the year under review were not accounted for as capital receipts.</p> | <p>That capital receipts and capital expenditures of LDSP funds will be taken into the books correctly from the year 2024 and carried out according to the correct method and properly accounted for</p> | <p>- Do -</p> |
| <p>(e) Local Development Support Project (LDSP) money of Rs.32,873,781 spent during the year was not shown as capital expenditure.</p> | <p>That capital receipts and capital expenditures of LDSP funds will be taken into the books correctly from the year 2024 and carried out according to the correct method and properly accounted for</p> | <p>Accounts should be correctly prepared.</p> |
| <p>(f) The overestimated stock value has been adjusted to the accumulated fund as Rs.3,601,719,. However, when</p> | <p>The errors in the stock balances will be identified and the correct</p> | <p>Accounts should be correctly prepared.</p> |

analyzing the stock balances of 4 years, values will be calculated
no information was reported to the audit and the errors will be
that such an overestimation had taken corrected in the
place. preparation of accounts
for the next year.

1.6.2 Documentary Evidences not made available for Audit

	Subject	Amount Rs.	Unsubscribed Audit evidences	Comments of the Sabha	Recommendation
(a)	Land and buildings	225,545,244	Land and Building Schedules, Title Deeds and Survey Plans	schedules will be prepared, and documents related to the scope prepared and updated	Accurate information related to account subjects should be submitted.
(b)	Machinery	27,885,507	Schedule	- Do -	- Do -
(c)	Motor Vehicles and carts	51,040,044	Asset registry, Registration Certificate	- Do -	- Do -
(d)	Furniture and Fittings	8,144,054	Asset registry	- Do -	- Do -
(e)	Equipment and Tools	2,331,900	Asset registry	- Do -	- Do -
(f)	General store	530,246	Stock Registry	- Do -	- Do -
(g)	Ayurveda Stock Stores	253,994	Stock Registry	- Do -	- Do -
(h)	Arrears in Other Revenue	14,277,666	Age analysis, Individual balance lists	- Do -	- Do -
(i)	Various creditors	4,129,651	Individual balance lists Age analysis	- Do -	- Do -
(j)	Shop rent in arrears	6,479,861	Age analysis	- Do -	- Do -

1.7 Non- Compliances

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

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a)	Pradeshiya Sabha Act No. 15 of 1987			
(i)	Section 24	The roads owned by the council had not been identified and gazetted.	No answers provided.	It should be complied with Pradeshiya Sabha Act.
(ii)	Section 134	Although the developed areas within the area of authority should be identified from time to time and assessment tax levied, assessment tax was levied only for the identified areas before the year 1980.	No answers provided.	- Do -
(iii)	Section 135	Although a list of public, religious charitable, educational and household properties situated within the area of authority to be exempted from assessment tax, no action was taken accordingly.	No answers provided	- Do -
(iv)	Section 139	Periodic returns were not called for, in order to assess the annual value of any house, building, land or property subject to assessment tax.	No answers provided	It should be complied with Pradeshiya Sabha Act.
(v)	Section 152	No action had been taken to conducted a survey and collected taxes regarding professions such as banks, finance companies, mortgage businesses and legal advisories	No answers provided	- Do -

within the area of authority.

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| (vi) | Sections 158,159,162,163 | Assessment tax of Rs.131,941,166 due at the end of the year under review, and arrears of assessment tax of Rs.25,612,621 had not been recovered. | No answers provided | - Do - |
| (vi) | Paragraph 126(h). | Although the parking lots and three-wheel parking areas operating within the area of authority should be properly managed and regulated, it was not done accordingly. | No answers provided | It should be complied with Pradeshiya Sabha Act. |
| (b) | Local Authority Finance and Administration Rules, 1988 published in Extraordinary Gazette No. 554/5 dated 17th April, 1989 | | | |
| (i) | Rule 32 | As the Sabha does not maintain the assessment records as per Pradeshiya Sabha Act, format 23 and maintains the information only through a copy of MS Excel software, the accuracy could not be satisfied | No answers provided | It should be complied with Local Authority Finance and Administration Rules, |
| (ii) | Rule 33, 34, 35 | Actions should have been taken to seize or foreclose the property concerned for arrears of assessment tax but had not done so. As a result, there were 883 outstanding properties worth more than Rs.5,000 in 24 assessment divisions of the area of authority, and Rs.10,727,240 had to be collected for those properties. It had not been complied with rules in that regard. | No answers provided | - Do - |

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| (iii) Rule 53 | Although an annual survey should be conducted and reports prepared regarding all sources of income within the Sabha area of authority, it was not done accordingly. | No answers provided | It should be complied with
Local Authority Finance and Administration Rules, |
| (iv) Rule 59 | There were no arrangements to conduct a survey on the existing businesses and industries in the council's jurisdiction at the beginning of each year and collect trade licenses and business taxes. | No answers provided | - Do - |
| (v) Rule 193 | Statements showing the reasons for excess and deficits comparing the actual expenditure of the expenditure subjects with the budget and supplementary standard expenditure were not submitted with the accounts. | No answers provided | - Do - |
| (vi) Rule 218 | Land and buildings costing Rs.225,545,244 were not surveyed once in every year. | No answers provided. | - Do - |
- (c) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.
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| (i) Financial Regulation on 571 | 05 balances of deposits exceeding 02 years (259 retention deposits) were retained in the deposit account and were not dealt with as per the Financial regulations. | No answers provided | It should be complied with
Financial Regulations |
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- (ii) Financial Arrangements were not made to get No answers It should be
Regulati security deposits from 20 officers provided complied with
on 880 and employees working in the Financial
Pradeshya Sabha. Regulations
- (d) Circular No. Every staff officer is required to No answers The circulars should
04/1994 of the declare his assets and liabilities provided be followed.
Secretary to the annually but this was not done
Ministry of accordingly.
Justice and dated
18 February
1994
- (e) Gazette No. According to the provisions of the No answers It should be
1533/16 gazette, the environmental provided complied with the
dated 25 protection permits should be provisions of the
February renewed 03 months before the Gazette.
2008 date of their validity, but 19 such
expired environmental protection
permits were not renewed as per
the provisions of the gazette.
- (f) Ministry of Although it was stated that No answers The circulars
Public performance agreements should provided should be
Administration be entered into every year, followed.
and although the Sabha had prepared
Management performance agreements for the
Circular year 2023, the agreements were
02/2018 not signed by the appraiser, the
appraiser and the quantifier to
protect the validity of the
agreement.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs. 10,849,582 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 51,602,610 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 Secretary of 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	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	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 rent	7,752	3,151	1,547	14,278	4,647	3,367	2,352	12,674
	28,589	5,946	4,205	6,480	12,625	6,931	5,173	4,739
Other revenue	<u>475</u>	<u>2,259</u>	-	<u>8,205</u>	<u>1,900</u>	<u>4,900</u>	<u>4,900</u>	<u>5,946</u>
Total	<u>36,816</u>	<u>11,356</u>	<u>5,752</u>	<u>28,963</u>	<u>19,172</u>	<u>15,198</u>	<u>12,425</u>	<u>23,359</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) At the end of the year, the arrear rent due from 23 shops was Rs.2,824,194 out of which an amount of Rs.1,691,962 remained outstanding for more than two years.	No answers provided.	Actions should be taken to recover the arrears.
(b) i. A list of unassessed properties in areas where assessment tax has been declared was to be prepared by the Revenue Inspector but was not done so.	No answers provided.	Lists of unassessed properties should be prepared.
ii. The total of Rs.1,053,290 worth of assessment due on property belonging to Government Departments within the area of authority remained unpaid.	No answers provided.	Actions should be taken to recover the arrears.

3. Operational Review

3.1 Fulfillment of functions assigned by the Act

Audit Observation	Comments of the Sabha	Recommendation
(a) Under Section 126 of the Pradeshiya Sabha Act, by-laws should have been enacted to fulfill 28 main matters, but, by-laws had been enacted for only 05 matters by 31 December 2023.	No answers provided	By-laws should be formally enacted.
(b) Although one of the main functions of the Pradeshiya Sabha is to regulate the land	No answers provided	Land development should be regulated.

development activities in the area of authority, 11, 05 and 04 development permits were issued for the years 2021, 2022 and 2023 respectively. However, since no unauthorized constructions were reported in the area of authority, it was confirmed that these works were not properly regulated.

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| (c) About 150 tonnes of unsegregated garbage collected monthly in the Pradeshiya Sabha area is dumped improperly at the Suriyapura garbage yard. As a result, it was observed that polythene and other non-biodegradable wastes were scattered all over the area. Since this garbage yard had been established blocking the path of wild elephants, the damage caused by wild elephants continued to increase, so there was a need for proper waste management planning. | No answers provided | A formal plan for solid waste management should be developed and implemented. |
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3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
It was not possible to verify 122 deposit balances of Rs.1,298,870 at the end of the year due to the fact that the deposit records were not maintained properly, the balances were recorded in pencil and the date of deposit was not recorded correctly.	No answers provided	Project monitoring and planning should be done properly.

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
(a) Considering the approved staff and the actual number of employees in the Sabha, it was revealed that there are 27 vacancies in 14 posts.	No answers provided	Vacancies should be filled.
(b) The Sabha had not prepared a human resource plan based on the Annexure 02 form mentioned in the Public Administrative Circular No. 02/2018 dated January 24, 2018.	No answers provided	A human resource management plan should be prepared as per the circular.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Sabha	Recommendation
The Sabha had established an internal audit unit and no internal audit programs had been introduced during the year under review. Also, an internal audit plan had not been prepared and approved by the National Audit Office.	No answers provided	Internal audit should be formalized.

4.2 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
According to the budget prepared for the reviewed year, when comparing the estimated income and expenses with the actual income and expenses, a variation was observed from 13 percent to 1389 percent in 06 income subjects and from 26 percent to 85 percent in 06	No answers provided	The budget should be prepared realistically

expenditure subjects, so the budgeting was not used as an effective control tool.

4.3 Environmental issues

Audit Observation	Comments of the Sabha	Recommendation
<p>Due to the problems of non-compliance to the amendments made to the National Environment Act No. 47 of 1980, releasing the collected garbage without classification, irregular disposal, consumption of the discarded materials by wild animals, due to the garbage disposal without proper planning, the environment is filled with polythene and hence the problem of these substances being added to the water during the floods to the area belonging to the Mahaweli region, the people living nearby as well as the wild animals like elephants had to face environmental problems.</p>	<p>No answers provided</p>	<p>Waste management should be done properly.</p>