

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of Kotmale Pradeshiya Sabha for the year ended 31 December 2023 comprising with the Balance Sheet as at 31 December 2023 and Income and Expenditure Account, 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

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kotmale Pradeshiya Sabha as at 31 December 2023, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

**1.2 Basis for Qualified Opinion**

My opinion is qualified based 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 Standards, 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 financial reporting process of the Pradeshiya Sabha.

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 of the Pradeshiya Sabha.

#### **1.4 Audit Scope (Auditor's Responsibility 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 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 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 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 Pradeshiya Sabha;

- 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 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 except the observations in the paragraph 1.2.3 of the summary report of 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

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	The value of the Pudaluoya Solid Waste Management Centre had been understated by Rs.19,780,200 in the financial statement.	It will be corrected during the preparation of accounts for the year 2024.	Account balances should be corrected.
(b)	A sum of Rs. 2,425,170 of 03 projects, for which construction had been awarded in the previous year which work had not been started, had further been account ted under creditors and the debtor value of a project had been understated by Rs. 24,972.	-Do-	-Do-

### 1.6.2. Unreconciled Control Accounts

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
	There was a discrepancy amounting to Rs.5,181,533 when reconciling the balances	It will be corrected in the future.	Action should be taken to identify

of 07 accounts indicated in the financial statements as at the closing date of the year under review with the relevant subsidiary documents.

and resolve the discrepancies.

### 1.6.3. Written Evidence not Made Available for Audit

Audit Observation	Comments of the Sabha	Recommendation
The files and schedules related to the balance amounting to Rs.77,870 indicated under machinery had not been submitted to audit.	Action will be taken to identify and include the items in the year 2024.	Action should be taken to submit the relevant files and the schedule.

## 1.7 Non-compliance

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

Instances of non-compliance to laws, rules and regulations are mentioned below.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Sabha	Recommendation
Pradeshya Sabha Act, No. 15 of 1987			
Section 49 (a)	Uncompensated agreements had not been entered into with the parties related to 19 plans related to the constructions carried out within the building limits of a thoroughfare of the Pradeshya Sabha.	Action will be taken to prepare and register as a non-compensable agreement at the District Registrar's office through a notary public.	Action should be taken in terms of the provisions of the Act.
Section 154 (1)	Tax of 01 percent to be levied on sales of 37 plots of land sold by auction by a private company had been undercharged by Rs.440,264	The Sabha has been informed by a letter dated 12.02.2024 that payment of 1% had not been made for the remaining plots due to reasons such as the purchase of several plots.	Action should be taken to collect revenue arrears.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue that exceeded the recurrent expenditure of the Sabha for the year ended 31 December 2023 was Rs.55,828,777 and corresponding to that, the revenue that exceeded the recurrent expenditure of the previous year had been Rs.34,496,669.

### 2.2 Revenue Administration

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

According to the information presented by the Secretary, the following is the information about the estimated revenue, billed revenue, collected revenue and arrears revenue related to the year under review and the previous year.

Source of Revenue	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	19,939,000	16,749,870	14,198,053	6,805,497	11,725,500	9,716,533	9,546,462	4,253,680
(ii) Rents	11,629,000	9,790,886	9,443,236	3,393,610	7,532,800	1,509,818	1,194,568	3,045,960
(iii) License Charges	14,398,500	13,194,254	13,194,254		11,291,000	10,649,464	10,649,464	-
(iv) Other Revenue	95,269,000	88,648,333	95,232,603	13,452,356	81,555,000	15,294,335	16,537,508	6,584,270
	141,235,500	128,383,343	132,068,146	23,651,463	112,104,300	37,170,150	37,928,002	13,883,910

#### 2.2.2 Performance in the Collection of Revenue

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

	Audit Observation	Comments of the Sabha	Recommendation
(a)	<b>Assessment Tax</b>		
	The assessment tax deficit to be collected by the Sabha as at 01 January of the year under review had been Rs.3,035,563 and only a sum of Rs.1,516,126, or 50 percent of that amount had been collected as at 31 December of the year under review. The balance of Rs. 837,851 to be collected from 293 assessment premises for more than 05	Legal action will be taken in the future to collect the arrears of assessment tax prevailed for more than 05 years.	Revenue arrears should be collected.

years and the balance of Rs.263,879 to be collected from 1152 assessment premises for a period between 01 to 05 years had been included in this deficit.

**(b) Other Revenue**

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| i.   | There had been a deficit of Rs.631,610, or 72 percent as at 31 December of the year under review, out of the arrears water charges amounting to Rs.869,675 prevailed as at 01 January of the year under review. A sum of Rs.1,545,634 had not been collected from 85 units related to the period of less than 01 year and a period between 01 to 05 years within the outstanding balance existed as at the closing date of the year under review. | Necessary steps are being taken to collect water charges.       | -Do- |
| ii.  | Revenue from tax of 1 percent had not been collected from 03 hotels approved by the Tourism Authority.  | Action will be taken to levy charges from the year 2024.        | -Do- |
| iii. | The collection in the year under review, out of the deficit of three-wheeler charges amounting to Rs.2,971,460 as at 01 January in the year under review, had been as low as 36 percent, and only a sum of Rs.830,550, out of the billing amounting to Rs.2,286,000 up to 31 December of the year under review, had been collected, and it had also been as very low as 36 per cent.  | Action is being taken to file a lawsuit to recover the arrears. | -Do- |

**(c) Court Fines and Stamp Duty**

The stamp duty that should have been received from the Chief Secretary of the Provincial Sabha and from the other authorities as at 31 December of the year under review had been Rs.10,863,360.	Action will be taken to recover the arrears in the future.	Revenue receivable should be brought.
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### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Even though stationery, laptop computers, multimedia photocopiers and office equipment required to conduct the learning centres had been donated to the Maldeniya and Pudaluoya libraries by the "Save the Children" Project on 08 January last year, the relevant project had not been started even by 31 December of the year under review and the office equipment obtained had been used for another purpose.	The computer is currently in the custody of the librarian of the library of the Head Office.	Arrangements should be made to start the project.
(b) Although Rs. 4,000,000 had been spent under 3 projects from 2021 to the year under review for drinking water projects in Dunukedeniya Gammadda, the project could not be implemented as three-phase electricity had not been obtained for the water motor.	A letter has been referred to the Ministry of Power and Energy.	Action should be taken to implement the project.

#### 3.2 Idle or underutilized property, plant and equipment

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Seven (07) machines, of which the value prevailed as at the closing date of the year under review had not been calculated and 04 pieces of furniture and office equipment and 02 vehicles remained idle and underutilized for a period of 01 to 21 years.	Necessary measures will be taken in the year 2024.	Action should be taken to utilize them.

#### 3.3 Asset Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Fourteen (14) buildings, including library buildings, stalls and houses of the Sabha had been left to be destroyed without maintenance.	Future activities will be carried out according to the proposals received through the management committee.	Buildings should be properly maintained.

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| (b) | The ownership of the land parcels comprised of an extent of 03 acres, 01 rood and 19.57 perches, from a land, which had been subdivided according to the Regulations of 22 (1) and (2) of the Urban Development Authority Law, No. 41 of 1978, had not been transferred.                             | Arrangements will be made to expeditiously obtain the registered copy of the relevant draft deed. | Land ownership should be confirmed.   |
| (c) | Five (05) vehicles used by the Sabha had not been in operational condition and even though 01 to 02 ½ years had passed since 3 vehicles had been given for the repair, they have not yet been repaired and received by the Sabha. The ownership of 02 vehicles had not been taken over to the Sabha. | Action will be taken to taken over the ownership.   | Ownership should be taken over and repairs and maintenance should be carried out. |

### 3.4 Visible Irregularities

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
In the year under review, an employee working in the Post of labourer in Hellboda sub-office had collected license fees amounting to Rs.317,559 from businesses located in the limits of the sub-office without issuing receipts and the officer had not credited the amount to the fund of the Sabha. Inquiries in this regard in terms of F.R. 104 (3) and 104 (4) had not been finalized even by 31 December of the year under review.	A preliminary inquiry is being conducted in relation to the officer on the fraud.	Action should be taken in terms of the Financial Regulations.

### 3.5 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) There had been 19 vacancies in 10 posts of the approved staff for the Sabha as at 31 December of the year under review.	Recruitment has been temporarily suspended in accordance with the government policies.	Vacancies must be filled.
(b) According to paragraph 1.1.7 of Budget Circular No. 118 dated 11 October 2004, action had not been taken to settle loan balances amounting to Rs 663,810, which had to be recovered within a period of 09 months to 01 year from five officers, who had transferred.	Necessary action is being taken to settle the loan balances of the concerned officers.	Action should be taken in terms of the Circulars.



- (c) The loan balance amounting to Rs.186,110 had not been recovered from two officers, who had been released to the teachers' service in the year 2015. Hatton Zone of Education is taking action to settle it. Action should be taken to settle the loan balances.