

## **Kundasale Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kundasale 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 financial statements give a true and fair view of the financial position of the Kundasale 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**

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 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 the preparation of Financial Statements

### 1.6.1 Accounting Policies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) A balance of Rs.42,170,000, which was stated as the outstanding balance at the end of the year under review and estimated in the year 2021 but unconstructed organic fertilizer packaging and storage yard, was erroneously shown under debtors.	It will be corrected in the future.	It should be correctly accounted for.
(b) Court fine income related to the year under review was under-accounted by Rs.18,735,571.	-Do-	-Do-
(c) A loan balance of Rs.196,344 of a person who vacated in the year 2020 was under-accounted for.	It will be correctly accounted for.	It should be correctly accounted for.
(d) During the year under review, Rs.71,589,329 spent on installation of Kawashima machine components and Rs.12,000,000 spent on other improvements for the Kundasale Aluthwatta Integrated Solid Waste Management Pilot Project were not accounted for.	-Do-	-Do-
(e) The Uyanwatta land worth Rs. 1,033,912 and the Moragahapitiya land worth Rs. 1,777,845, which were assigned to the Sabha from the lands that were sub-divided and sold in the auction in 2010, had not been accounted for.	-Do-	-Do-

(f) The value of the Warapitiya Public Library construction project which was removed from last year's accounts of Rs.650,000 had been re-accounted under buildings, and the value of the Amunugama Thewarawatta road development project of Rs.1,300,000., which had been removed from the development proposals of the reviewed year, had been erroneously accounted for under creditors.	It will be correctly accounted for.	It should be correctly accounted for.
(g) Rs. 1,900,000 spent on painting the Sabha building last year had not been capitalized.	-Do-	-Do-
(h) According to the files of 06 development projects in the year under review, although the cost was Rs.5,422,767, by accounting the estimated value of Rs.7,225,000 as creditor, the creditors had over accounted by Rs.1,802,233.	-Do-	-Do-
(i) During the year under review, Rs.3,443,171, which was incurred on setting up members' rooms and Sabha hall, was not capitalized and accounted under recurring expenses.	-Do-	-Do-
(j) Revenue of Rs.14,753,555 from license fees due from two hotels registered with the Tourism Board in relation to the years 2015-2017 was not accounted for and from 2018 to the year under review the related license fees were not recognized and accounted for.	-Do-	-Do-

## 1.6.2 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) There was a difference of Rs. 70,302,688 in comparison with the balances of 10 asset subjects and the balances of 01 liability subjects shown in the financial statements as at the end of the year under review, in the related schedules and documents.	That the difference is correctly identified and rectified.	Account balances should be rectified.

(b) There is a difference of Rs.1,335,049 as the balance of contribution from the income and assistance to capital application account was Rs.1,415,166,045, at the end of the year under review, while the balance of fixed assets was Rs.1,416,501,094.	It will be corrected in the future.	Account balances should be corrected.
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**1.6.3 Unauthorized Transaction**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
For the prepayment balance of the Sabha as at the end of previous year of Rs. 18,145,527, in December of the reviewed year, Rs. 18,428,135 was erroneously credited through cross entries.	That it will be correctly accounted for.	It should be correctly accounted for.

**1.6.4 Documentary Evidences not made available for Audit**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Due to non-presentation of physical existence, files, documents and schedules related to 09 asset balances and 03 liability balances totaling Rs.58,065,295 in the financial statements, they could not be satisfactorily verified during the audit.	The information will be looked into and documented and the schedules will be maintained correctly in the future.	Document files and schedules related to account balances should be maintained.

**1.7 Non- Compliances**

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

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

<b>Reference to Laws, Rules Regulations etc</b>	<b>Non-compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Section 149 of the Pradeshiya Sabha Act No. 15 of 1987	The license fee of Rs.14,753,555 for the period from 2015 to 2017	It will sue and recover in the future.	Income should be charged according to the provisions of the Act.

		was not collected from 02 hotels.		
(b)	The Local Authorities (Standard By-Laws) Act No. 06 of 1952			
	By-laws regarding parking of three-wheelers	From the year 2010 to the year under review, three-wheeler fees of Rs.3,686,433 was not collected from the three-wheeler parking points located in the Sabha area of authority.	Action will be taken to charge fees.	Revenue should be recovered.
(c)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	Financial Regulation 104(3) and (4)	The cab owned by the Sabha had caught fire on January 20, 2022. Investigations were not completed in that regard.	That a government analyst's report should be obtained.	It should be complied with financial regulation.
(ii)	Financial regulation 394	Cheques of Rs.156,041 which were issued and dishonored later and whose time cannot be ascertained were not cleared.	It will be corrected next year.	It should be complied with financial regulation.

## 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. 74,705,125 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 181,233,144 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 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	Estimated Revenue	2023			2022			
		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	64,118,347	42,692,287	34,835,347	57,623,127	42,815,634	33,079,249	16,686,937	49,766,187
(ii) Rent	20,018,920	17,756,548	19,186,050	2,810,475	8,781,620	10,039,619	14,279,596	4,239,977
(iii) License Fees	18,574,146	7,100,000	7,100,000	15,321,640	5,985,000	5,983,999	5,983,999	15,321,640
(iv) Other revenue	174,613,776	174,613,776	86,463,058	331,137,124	213,435,930	213,435,980	29,550,426	242,986,406
	277,325,189	242,162,611	147,584,455	406,892,366	271,018,184	262,538,847	66,500,958	312,314,210

### 2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

Audit Observation	Comments of the Sabha	Recommendation
<p><b>(a) Rates and Taxes</b></p> <p>As on the end of the year under review, the outstanding assessment balance was Rs.55,330,880 and it consists Rs.795,604 from 12 properties of which assessment arrears of one unit in between Rs.50,000-100,000, Rs.18,600,204 in 07 properties above Rs.100,000 and among which the assessment arrears of one unit was Rs.17,007,003 and from 830 government properties, it was Rs.528,565.</p>	<p>The property will be seized and charges collected.</p>	<p>Actions should be taken to recover the arrears.</p>
<p><b>(b) Stall Rent</b></p> <p>i. As on December 31 of the year under review, the stall rent arrear balance of Rs.2,810,475 had not been taken as per Section 159(1) of the Pradeshiya Sabha Act, among them, Rs. 457,390 had to be collected from 03 sealed stalls.</p> <p>ii. A tender amount of Rs.2,639,500 from 05 stalls in Digana Multi-Purpose Building which was tendered and awarded in the year 2014, had not</p>	<p>Stallkeepers have been informed.</p> <p>Legal action has been taken</p>	<p>Arrears should be charged.</p> <p>- Do -</p>

been recovered by the end of the year under review.

(c) **Court Fine and Stamp Fees**

Court fines amounting to Rs.6,938,663 and stamp duty amounting to Rs.157,532,539 were due from the Chief Secretary of the Provincial Council and other authorities on December 31 of the year under review.

The arrears will be recovered.

Outstanding stamp duty and court fines should be collected.

**3. Operational Review**

**3.1 Fulfillment of functions assigned by the Act**

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.

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	114 development projects worth Rs. 63,000,000 planned to be completed in the year under review were not completed.	The provisions were inadequate.	Planned development projects should be carried out.
(b)	Kundasale Pradeshiya Sabha and Pathadumbara Pradeshiya Sabha had jointly given 90 million rupees to the Commissioner of Local Government through the Chief Ministry in the year 2021 for the improvement of Digana Aluthwatta Garbage Centre. The following observations have been made in this regard.	It was due to the non-involvement of Pathadumbara Pradeshiya Sabha.	It should be complied with the agreement.
(i)	The construction of the warehouse yard was abandoned as Rs. 29.38 million had to be used for the repair work of the Kavishima machine out of the Rs. 42.17 million allocated for the construction of the warehouse yard. The remaining amount of Rs.12 million was used informally for other functions of the garbage yard.	Deployed in two approved projects	Tasks should be performed as planned.
(ii)	The proposed warehouse building; in order to fulfill the objectives of the project and to carry out the organic fertilizer process properly, storage of the collected decomposable garbage,	The measures will be taken to deal with a correct plan in the future.	Action should be taken to achieve the objectives of the project.



ground garbage and produced fertilizer without exposure to rain, provision of necessary facilities to decompose the ground garbage with proper standard and storage of manure with proper standard, etc. could not be constructed as planned due to lack of proper planning and inefficiency of the officials.

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| (iii) | The machine, which was purchased at a cost of Rs. 10,287,000 in the year 2021 to remove excess moisture from the garbage for the organic fertilizer yard, was not in working condition from the date of purchase to the year under review.   | That was due to the delay in installing electricity. | Purchases should be made with due diligence.   |
| (iv)  | On January 28, 2021, the Sabha entered into an agreement with a private company for a pilot project to produce fuel from polythene and plastic in the Aluthwatta solid waste project and by the last day of the year under review, the project had not started and the Sabha had incurred a cost of Rs.29,782,203 from 2021 to 2022 to prepare the project site. But due to the fact that the contractor who was contracted to install this machine did not install it, the expenses incurred by the Sabha were useless. Necessary action had not been taken in relation to the contractor in this regard. | It was not a useless expense.                        | The tasks related to the objective should be performed and the supervisory officers should monitor and take necessary action against the contracting institution in case of non-performance of the work. |

### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) As on December 31 of the year under review, a creditor balance of Rs.257,718,123 and a debtor balance of Rs.105,569,537 had not been settled and recovered.	The debtor balances will be recovered and the creditor balances will be settled.	Arrangements should be made to recover debtor balances and settle creditor balances.
(b) As at the end of the year under review, the stock of manure in the compost project had not been counted and accounted for.	It will be correctly accounted for.	It should be correctly accounted for.

### 3.3 Idle or underutilized Property, Plant and Equipment

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	A cab worth Rs.4,500,000 remained unused and idle since 2012.	It has been removed because of the huge cost to be incurred for repairs.	It should be disposed of or repaired and put to use.
(b)	12 stalls in the Digana multi-purpose building had been closed for many years, and no formal action was taken during the year under review regarding the closed stalls.	It will be done in the future.	The concerned stalls should be taken over or proper course of action should be followed.

### 3.4 Assets Management

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	34 properties that have been surveyed and survey plan was prepared, and 272 lands tenured by the sabha have not been taken over.	It had been informed by letters.	Arrangements should be made to take over formally.
(b)	12 sports grounds and stadiums owned by the Sabha were not properly fenced or security ensured. Those lands were forested and the buildings were left without maintenance, allowing them to destroy.	The fences are proposed to be built.	The security of lands should be ensured and put to use for purposeful activity.

### 3.5 Delays in Project Activities or Capital work

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
	Recurring income of Rs.209,433,521 held in the bank accounts as at the end of the year under review was invested in fixed deposits without being utilized for regional development.	The surplus money has been invested.	Surplus money should be used for development activities.

### 3.6 Human Resources Management

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	Comparing the approved staff with the actual staff, there were 21 vacancies in 10 posts and 20 excesses in one post.	Due to suspension of recruitment on Government policy, vacancies have arisen and excess due to attachment of development officers.	Vacancies should be filled.
(b)	Rs.572,857 was not recovered from 03 officers and employees who died, took no pay leave and left service during the period from 2021 to the year under review.	It will be charged in the future.	Loan balances should be recovered.

### 4. Accountability and Good Governance Sustainable Development goals

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
	Although the Sabha had identified sustainable development goals and targets and identified indicators to achieve them and measure progress, they had not been implemented.	The targets and indicators are somewhat identified.	Targets and indicators should be identified and implemented.