

Kurunegala Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kurunegala 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 the Provisions of the 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 Kurunegala 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 express qualified opinion in respect of financial statements 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 Sri Lanka Public Sector 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 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 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 Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) The arrears of three-wheeler association license fees amounting to Rs.15,400 had been accounted for in 02 accounts as debit and credit.	The error of accounting for in two accounts will be corrected in the future..	It should be accurately accounted for.
(b) During the correction of accounting deficiencies in the year 2022, received income in advance amounting to Rs 72,377 had been credited twice.	This will be corrected through the financial statements of the year 2024.	-do-
(c) There was a difference of Rs.19,372,995 between the total of property, plant and equipment accounts and the account balance of contribution from income to capital application as at 31 December of the year under review.	This will be corrected in the future.	It should be accurately accounted for

(d) The employee loan account balance had been overstated by Rs.359,045.	-do-	-do
(e) According to the recommendations of the Board of Survey Report, the value of the library books which was disposed of amounting to Rs 42,803 had not been removed from the accounts.	-do-	-do-
(f) The building value of Rs 1,837,668, which had been completed in the year 2023 under provision licenses and local government specific development grants, had not been capitalized.	-do-	-do-
(g) The value of 04 industries which were completed under the Sabha funds in the year 2023 amounting to Rs.8,959,842 had not been capitalized.	-do-	-do-
(h) The sundry creditors related to the year 2023 amounting to Rs.103,080 that had been paid in the year 2024 had not been accounted for.	-do-	-do-
(i) As the value of library books purchased during the year under review had been overstated by Rs 527,810, the non-current assets and contribution from income to capital account had been overstated by that value.	That the error of overstating will be corrected in the future.	-do-
(j) Council Fund creditors in the year 2023 had been understated by Rs.1,000,000 .	The amount understated will be corrected by preparing the schedule.	It should be accurately accounted for.
(k) A sum of Rs.954,962 for two projects executed under Sabha funds in the year under review had been overstated as creditors.	Due to the non-fulfilment of several estimated work items, an amount less than the amount entered in the creditor register has been paid and since it was not	-do-

	essential to perform certain work items in submission for approval, estimates had to be prepared excluding those sections.	
(l) A sum of Rs. 132,636 had been overstated as creditors for 07 projects implemented under the North Western Development Programme in the year 2017 .	A schedule will be prepared and if there are the values that were overstated, actions will be taken to write off the money properly.	-do-
(m) Although the Minghettiya Public Library and Tamilusa Prajashala building owned by the Sabha were assessed at Rs 1,355,000 in the years 2020 and 2021, the value had not been not accounted for.	Actions will be taken to correct in the future.	-do-
(n) A land valued at Rs.100,000 had been debited twice to the land and building account.	Actions will be taken to correct in the future.	It should be accurately accounted for.
(o) The estimated value of Rs. 9,500,000 of the road roller and gully trailer owned by the Sabha had not been accounted for as motor vehicles.	-do-	-do-
(p) The value of vehicles owned by the Sabha as per the assessment made by the Mechanical Engineer on 22 March of the year under review had been understated by Rs 3,122,589.	-do-	-do-
(q) The value of 04 items of machinery and equipment purchased during the year under review, valued at Rs.2,041,600, had been accounted for twice.	-do-	-do-
(r) The values of water motor and auditorium equipment amounting to Rs 151,000 and wooden furniture amounting to Rs 450,400 purchased	-do-	-do-

during the year under review had not been accounted for.

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| (s) | The capital expenditure value of Rs.1,613,975 included in Program 05 Public Utilities had been accounted for twice in that programme. | -do- | -do- |
| (t) | Fixed deposit interest for the year under review had been overstated by Rs.2,099,523 . | -do- | -do- |

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Secretary	Recommendation
(a) There was a difference of Rs 225,042,277 between the balances related to 09 accounting items and the balances in the schedule which totalled to Rs.771,861,989 as per financial statements as at 31 December of the year under review.	Unreconciled schedules and financial statement balance will be corrected in the future.	Actions should be taken to identify and the differences and accurately account for.
(b) There was a difference of Rs.36,926,969 between the balances relating to 06 land and buildings which totalled to Rs.172,058,063 in the financial statements and the building register/valuation reports as at 31 December of the year under review.	Unreconciled schedules and financial statement balance will be corrected in the future.	Actions should be taken to identify and the differences and accurately account for.
(c) As per the statement of financial position as at 31 December of the year under review, the equity was Rs.1,307,503,157 and as per the statement of changes in net assets, the value was Rs.1,326,852,987. Accordingly there was a difference of Rs.19,349,830 .	Unreconciled schedules and financial statement balance will be corrected in the future.	Actions should be taken to identify and the differences and accurately account for.

1.6.3 Lack of Written Evidence for Audit

Audit Observation	Comments of the Secretary	Recommendation
Due to non-submission of necessary information, 09 accounting items totalling to Rs 286,580,953 could not be satisfactorily verified in the audit.	This will be checked and corrected in the future.	Necessary written evidences should be provided

1.7 Non-compliance

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

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

Reference to Laws, Rules, Regulations, Management Decisions etc.	Non-compliance	Comments of the Secretary	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Financial Regulation 571 (2)	Actions had not been taken in terms of the regulations regarding mixed deposits of Rs.9,339,313 for more than 02 years.	That the applicants have been notified by telephone and reminder letters have also been sent, and since it has been submitted to the Management Committee, arrangements will be made to collect the revenue as soon as a decision is taken.
(b) Section 06 (b) and (c) of the National Environment Act No. 47 of 1980	The Sabha had not done necessary activities to renew 11 environmental protection licenses that	Arrangements are being made to collect environmental protection	Actions should be taken to recover the revenues as per the circular.

should be renewed in the year 2023 and to collect those fees.

(c)	Section 100 Inspection of Nuisances of the Pradeshiya Sabha Act No. 15 of 1987	The nuisance related to 07 cases filed against the Sabha had not been investigated and proper remedy had not been taken.	The circumstances arose due to the fact that the public did not act according to the Act when going to perform services for the public by the Sabha and those are the cases that they arbitrarily filed against the Sabha.	As per the Pradeshiya Sabha Act, the nuisance investigations should be done.
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2. Financial Review

2.1 Financial Results

As per the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2023 was Rs.244,928,314 and the correspondence revenue that exceeded the recurrent expenditure of the preceding year was Rs. 295,226,983.

2.2 Financial Control

Audit Observation	Comments of the Secretary	Recommendation
Due to the retention of an average balance of over Rs.160 million in the saving account of the Sabha during the year under review, the Sabha had lost a higher return which could have been obtained by investing in fixed deposits.	Actions are being taken to open fixed deposits.	Actions should be taken to find revenue generating opportunities for the Sabha and increase revenue.

2.3 Revenue Administration

2.3.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

As per the information presented by the Secretary, the details about the estimated revenue, billed revenue, collected revenue and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	<u>Year 2023</u>				<u>Year 2022</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
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Rates and Taxes	11,244	17,358	16,851	12,791	16,860	19,241	12,199	12,532
Rents	1,253	2,455	2,269	238	2,460	1,855	1,803	52
License Fees	2,201	2,761	2,761	-	1,975	2,781	2,781	-
Other Income	125,405	385,438	312,424	190,180	145,328	183,149	58,897	124,252
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Total	140,103	408,012	334,305	203,209	166,623	207,026	75,680	136,836
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2.3.2 Performance of Revenue Collection

Audit Observation	Comments of the Secretary	Recommendation
(a) The billed income was Rs. 408 million in the year under review, and including the arrears of income related to previous years amounting to Rs. 334 million had been collected in the year under review. A sum of Rs. 203 million remained to be recovered further at the end of the year under review.	Actions will be taken to recover in the future.	Actions should be taken to recover arrears of revenue and billed revenue.
(b) Based on an assessment made by the Sabha in the year 2018, rates were being levied for the year 2023 as well and as a result, the Sabha had lost its income receivable.	Since the approval of the Governor has been received to carry out the assessment revision works, further actions are being taken.	Actions should be taken to get a new assessment and charge the revenue.

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| (c) | Out of the 99 leasable assets owned by the Sabha, only 48 assets had been leased out by 31 December 2023 and as a result of the remaining 51 assets had not been re-tendered or leased out in another way, the revenue to be received had lost. | All the assets to be leased out have been tendered thrice and no tenderer has appeared. | Actions should be taken to lease out leasable assets and generate revenue. |
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3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
The land auctioneers had not taken any action to rectify the deficiencies in the plot plan and make the plotting of the land in accordance with a legal process in the applications submitted in relation to the sale of 04 plots of land by 02 land auction brokers and the Sabha had not make any arrangement to take legal action against those institutions or to control the auction activities by the date of audit on 15 February 2024 .	The necessary arrangements will be made to take a decision after sending it to the Planning Committee .	A proper regulation should be maintained.

3.2 Deficiencies in Contract Administration

Audit Observation	Comments of the Secretary	Recommendation
Although the contracted value of the first phase of the Wellawa Mall construction was Rs 77,745,538, the value of the work done according to the final bill was Rs 33,421,312 and the difference between the contracted value and thus the work done was 57 percent, the works of the project were not properly estimated while preparing the total cost estimate as per Paragraph 4.3 of the Government	Due to the economic situation in the country, as it is disadvantageous for the Pradeshiya Sabha to continue these projects, 07 work items had to be abandoned and the estimated amount of 21 work items had to be limited.	Actions should be taken to complete the works as per estimates.

Procurement Guidelines and the total value mentioned under the item of civil works relating to tasks in 07 work items mentioned in the bill of quantities amounting to Rs. 2,810,889 had been abandoned without doing.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Secretary	Recommendation
A number of 12 industries valued at Rs 21,450,000 which were not budgeted in the year under review, had been completed.	The projects that need to be developed urgently based on strong public demands will be carried out after obtaining the relevant approvals.	Needs should be identified and budgeted.