

## **Kotikawaththa Mulleriyawa Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Kotikawaththa Mulleriyawa Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of Assets and Liabilities as at 31 December 2021, Comprehensive Income Statement, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 accompanying financial statements give a true and fair view of the financial position of the Kotikawaththa Mulleriyawa Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified 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**

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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 Government 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.

#### 1.4 **Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)**

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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 skepticism 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

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The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) The following recommendations made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Accounting deficiencies

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Audit observations -----	Comment of the Council -----	Recommendation -----
(a) Although the depreciation value of roads, bridges and culverts during the year under review was Rs.228,349,366, the statement of comprehensive income showed it as Rs.7,679,560 and as such the expenditure in the financial statements was understated by Rs.220,669,806.	Informed that since the recalculated value of roads, bridges and culverts in previous years cannot be properly determined, a policy decision has been taken to depreciate the future roads, bridges and culverts based on their value.	Depreciation values should be accounted properly.
(b) The balance of the work in progress account amounted to Rs. 25,382,937 as at 31 December 2021, however in the financial statements, it was recorded as Rs. 6,034,462 and as such the creditor balance was overstated by an amount of Rs. 31,417,399.	Informed that the necessary corrections will be made during the preparation of the financial statements of 2022.	Creditor value should be accounted properly.
(c) The value of library books of Rs.67,500 received as donations in 2021 was not accounted.	Informed that the necessary corrections will be made during the preparation of the financial statements of 2022.	Library book donations should be accounted properly.

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| (d) | Although the value to be amortized in 2021 for the capital grants received in 2020 amounted to Rs.8,157,566, in the comprehensive income statement it was shown as Rs.5,493,069, as such the debit of the year was understated by an amount of Rs.2,664,497.     | Since the comprehensive grants of the amortization year are done in the same year, the capital grants of 2020 and 2021 have been identified and calculated.  | The relevant adjustments should be made correctly according to the advice of Section 194 of Provincial Council Gazette No. 2155/8 dated December 24, 2019. |
| (e) | A compensation amount of Rs.33,135,650 received by the council for the widening of highways in the area of the council was credited to the reserve and allocation account instead of being accounted as other income during the year under review.               | At the time of preparing the financial statements, the value of the assets related to receiving the compensation was not properly identified and it is notified that the necessary work to make the relevant corrections will be done in the preparation of the financial statements in the year 2022. | Should be accounted properly.  |
| (f) | Children's park expenses amounting to Rs.4,487,891 were not accounted under capital assistance, and as such assets were understated by an amount of Rs.4,487,891 and depreciation was understated by an amount of Rs.448,789.                                    | Informed that the necessary corrections will be made during the preparation of the financial statements of 2022.   | The fixed assets and depreciation of the asset should be accounted correctly.  |
| (g) | An amount of Rs. 1,325,367 spent on the ceiling and gutter construction of the auditorium of T.B.Ilangaratne Stadium belonging to the council was accounted under recurring expenses instead of being accounted as an asset under property, plant and equipment. | do   | Assets should be properly identified and accounted properly under property, plants and equipment.  |
| (h) | Although as per the comprehensive income statement of the year under review, the depreciation value amounted to Rs.27,916,190, it was not shown in the cash flow statement.  | do   | Depreciation should be accounted properly.   |

(i)	Although the purchases of fixed assets during the year amounted to Rs.93,324,906 it was not shown under investing activities in the cash flow statement.	do	Action should be taken to account correctly under investing activities.
(j)	Although cash and cash equivalents should amount to Rs.138,640,414 at the end of the year of the cash flow statement, it was observed that there is a difference of Rs.73,983,321 as the final balance after making all the adjustments amounted to Rs.212,623,735.	do	Action should be taken to account correctly.
(k)	Received Capital grant in the year amounting to Rs.40,279,099 was not shown in the cash flow statement.	do	Action should be taken to account Capital receipts properly.

## 1.6.2 Unreconciled control account or report

Audit observations -----	Comment of the Council -----	Recommendation -----
There was a difference of Rs77,275,778. in between the balance of 03 accounting items in the financial statements and balance value in sub registers.	Action will be taken to rectify in future.	Action should be taken to rectify registers and sub-registers.

## 2. Financial review

### 2.1 Financial result

According to the Financial Statements presented, excess of debt over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.75,111.697 as compared with excess of recurrent expenditure over revenue amounted to Rs.645,242,866 in the preceding year and it was observed that the financial result had developed by Rs.720,354,563 compared to the previous year.

## 2.2 Arrears of income

<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>(a) Rates and Tax</b>		
<p>The outstanding assessment and tax value was Rs.60,673,270 out of which the amount due from 25 assessment arrears balances with an outstanding value of more than Rs.40,000 was Rs.5,035,656 as at the end of the year under review</p>	<p>Notified that this outstanding assessment amount Rs. 1,596,585 are government properties, which is about 2.6% of the total outstanding amount. Relevant government agencies and local government agencies have also been notified. So far, two properties have been fully paid and the remaining arrears will be paid in instalments.</p> <p>Compared to the years 2020 and 2021, due to the Covid-19 epidemic situation in the country, it was not possible to increase income due to activities such as transport restrictions and office closures. At present, Mobile Assessment programs are expected to collect the arrears of income by employing property prohibition officers and confiscation of properties.</p>	<p>Action should be taken to collect arrears of income due from a number of years.</p>
<b>(b) Shop Rent</b>		
<p>No rent was collected out of the total rent arrears of Rs.5,244,196 due from 33 shops during the year under review.</p>	<p>The renters have avoided paying rent due to the increase of assessment by 300% as of the new Shop Rent revision of 2019. They have asked for an amendment of the revision and as such it was forwarded to the Governor. The governor has notified and forwarded them to obtain the amendment from the assessment department and although the Assessment department has reduced the revision by 10%, the renters were not satisfied by this.</p> <p>The council and the renters are discussion these factors day by day and in the end as of the resolution by the committee it was decided to collect the revision in installments.</p>	<p>Rapid action should be taken to collect the arrears of Shop rent by other means such as retaking shop rooms from those who avoid paying the Shop rent.</p>

### (c) Court Fines

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No income from court fines of any form was collected by the council as at the preceding 5 years and court fines amounting to Rs.11,410,860 was to be collected as at the end of the year under review.

The colombo magistrate court have been forwarded to recheck the records relating to the preceding years regarding court fines and the problem has arisen as the court had not checked the said records and forward the relevant funds to the council as of now.

Rapid action should be taken to collect receivable court fines before due date.

## 3 Operational review

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### 3.1 Identified Losses

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Audit observations	Comment of the Council	Recommendation
<p>The tipper truck number LK 4339 met with an accident and damaged an electric pole on 11 June 2021, and the council had paid Rs.108,805 to the Ceylon Electricity Board for the damage to the electric pole. However at the time of the accident, the driver's license of the tipper truck's driver had expired, so the insurance company did not cover the loss. During the peak of the Corona epidemic, the government had extended the validity period of driving licenses for people whose driving licenses were expiring. However action had not been taken to collect the amount from the driver in concern or the officials who did not check the driver's license.</p>	<p>There was no damage to the tipper when the tipper hit the electric pole, and the Ceylon Electricity Board had estimated an amount of Rs.108,805 for the damage to the electric pole. The driver's license had also expired since March 2020 during the Corona epidemic situation. Since the Department of Motor Transport and medical certifying agencies were closed, the issuance of driving licenses was suspended indefinitely, so the driver was unable to renew his licence. The Mulleriyia Police informed that the damage to the electricity pole should be paid immediately, and accordingly the money was paid to the Ceylon Electricity Board under the approval number C(iv)70 of the Monthly committee held on 14.07.2021. Later, the documents related to recovering the loss from the Sri Lanka Insurance Company have also been handed over, however the required driving license has not been issued by the Motor Transport Department so far, so it has been delayed.</p>	<p>Action should be taken according to the Financial Regulation instructions relevant to obtaining driver's licenses, insurance coverage certificates and vehicle control in due time.</p>

## 3.2 Operational Inefficiencies

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Audit observations	Comment of the Council	Recommendation
<p>(a) The service of a dozer of type D6H was taken from a private institute for rent for flattening and closing the garbage collected in the Kotikawatta garbage unit and an amount of Rs.30,676,250 was paid as rent for it from September 2018 to December 2021. Out of the 30 – 35 tons of garbage collected daily, around 05 tons is being used for the production of compost and the remaining amount and the non degradable garbage of 20 – 25 tonnes and miscellaneous garbage of 10 tonnes and from which the total daily collected 45 – 65 tons of garbage was not used for composting and production of bio gas and as such the problem of incurring extra expenditure for the flattening and covering garbage has arisen.</p>	<p>An amount of 50-60 tons of garbage is added to the garbage unit every day, of which 05 tons of decomposable garbage is used for composting. Apart from composting, the remaining 35 tons of waste collected daily is released into the open field. That amount of garbage should be pushed every day, and when it is not possible to do so in one day, hill of garbage is built in that land. As such pushing this garbage is a must. Since 2018, the D6H chain dozer has been used, and before that a D4 type chain dozer has been used. A chain dozer is essential for that purpose, and it is kindly pointed out that the council is unable to purchase it due to a number of factors. Kindly informed that after considering all the facts, this service will be obtained under the approval of the committee on rental basis.</p>	<p>Action should be taken by the council to generate income for the council and to create a friendly environment for the residents of the area by minimizing costs by properly managing the council's waste.</p>
<p>(b) On 09 November 2021, according to the meter of the chain dozer, the number was shown as 9,895.1, however the last day of work before that was on 29 October 2021, as the meter number was 2,099.8 and 5.2 hours of work has been done that day as was observed according to the running notes number 48649. And it was observed that after 29 October 2021, it has only worked on 09 November 2021. Although the work administrator claimed to have worked during this period, there was no relevant evidence at the site.</p>	<p>Notified that the garbage yard has worked after 29 October. Yet kindly noted that there was no written note about it. Kindly noted that necessary steps have been taken to avoid that shortcoming and leave written notes.</p>	<p>Action should be taken to act transparently in the use of resources owned by the council with the necessary written evidence.</p>