

Kirinda Puhulwalla Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kirinda Puhulwalla Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising Statement of financial position as at 31 December 2022, Statement of Financial Operations, statement of changing Equity, 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 Kirinda Puhulwalla Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally accepted Accounting Principles, 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 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

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 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) The amount of Rs. 5,040,553 spent in the year under review for the Construction of the Upper floor of the Library of the Council was not capitalized.	Action will be taken to rectify.	Should be accounted correctly.
(b) Provisions have not been made in the preceding year for the payable expense to Creditors amounting to Rs.1,312,783 and was accounted as an Expense in the year under review.	Action will be taken to rectify in the future.	Should be accounted correctly.
(c) The creditor balance was overstated by an amount of Rs.1,109,925 as at the end of the year under review.	Action will be taken to rectify in the future.	Should be accounted correctly.

1.6.2 Lack of Documentary evidence for audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Due to non-submission of Ownership Deeds, Assessment Reports, Plans, Detailed Schedules etc., 03 accounting items totaling to Rs. 58,247,274 could not be satisfactorily vouched for during the audit.	Action will be taken to rectify in the future.	Evidence should be submitted to confirm the account balances shown in the financial statements.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Laws, Rules, Regulation and Management Decisions -----	Non – Compliance -----	Comment of the Sabha -----	Recommendation -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----			
(i) F.R.272.1	Action had not been taken according to the Financial Regulations regarding the misplacement of the Payment	Agreed.	Action should be taken according to the regulations

Voucher amounting to Rs.427,020 paid from the current account maintained by the Council.

- (ii) F.R.571 Action had not been taken according to the Financial Regulations regarding the deposit balance of Rs. 104,342 exist more than 02 years. That action will be taken to rectify. Action should be taken according to the regulations

2. Financial review

2.1 Financial result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December amounted to Rs. 4,683,492 as compared with excess of recurrent expenditure over revenue amounted to Rs. 515,070 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 chairman, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	1,025,485	922,123	828,320	808,959	879,515	904,072	951,991	715,156
(ii) Rent	4,915,200	1,643,740	1,643,524	376,498	1,591,800	1,580,920	1,538,572	376,282
(iii) License Fees	330,100	484,510	543,360	38,325	130,000	117,000	117,000	97,175
(iv) Other revenue	7,798,200	94,600	11,564,821	660,146	6,520,000	7,789,310	2,210,000	12,130,367
	14,068,985	3,144,973	14,580,025	1,883,928	9,121,315	10,391,302	4,817,563	13,318,980

2.2.2 Performance in Revenue Collectio

Observations regarding the revenue collection performance of the council are given below.

Audit Observation	Comment of the Sabha	Recommendation
(a) The outstanding Assessment Tax balance as of the beginning of the year under review amounted to Rs.715,156, and the balance amounted to Rs.808,959 as of the end of the year.	That action will be taken to collect the arrears of Income	Arrears of income should be collected as soon as possible.
(b) Although, the developed areas of the council's area of authority were identified and published in Gazette No. 2161 dated 31 January 2020, according to Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987, and the Assessment Tax was passed for Collection on October 5, 2021, action had not been taken to collect the Assessment Tax after estimating Assessment Property even as of the end of the year under review.	That action will be taken once the approval of the Provincial Governor is taken for Property Assessment.	Action should be taken according to the Act.
(c) Arrears of income were to be collected from 10 rent-paying shops owned by the council and 06 ground-tax paying shops were Rs. 184,996 as of the end of the year under review.	That action will be taken to collect arrears of income.	Arrears of income should be collected promptly
(d) The Taxes of 32 shops in the Kirinda Public Market new mall and the bus stand owned by the council had not been assessed by 30 November 2022 as according to Southern Province, Local Government Commissioner No. දපපා/පපාකො/2010/01, paragraph 06 of the Circular dated 27 December 2010	That the assessment work can be completed as soon as possible.	Shop rent assessments should be updated as soon as possible.

3. Operational Review

3.1 Performance 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 Council under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comment of the Sabha	Recommendation
(a) By-laws containing planning and development regulations regarding buildings, construction of buildings and works within the area of authority	That the draft for By-laws and the related Forms are currently being prepared, and that letters	Action should be taken according to the Act.

of the council as according to Sub-Section 126 (viii) of the Pradeshiya Sabha Act No. 15 of 1987 had not been enacted, and necessary action had not been taken regarding 06 Constructions done without approval revealed during the Sample Field Audit Inspection Conducted on 06 December 2022.

have been sent to submit the documents that can prove the approval relevant to the Construction and further action will be taken in the future relevant to the 06 buildings identified during the field audit inspection.

3.2 Management Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Action was not taken regarding 06 Buildings that were newly Constructed or under Construction within the Municipal Limits belonging to the area of authority of the council without obtaining Development Permits as according to the Guidelines of Gazette Notice No. 2235/54 dated 08 July 2021 containing the Plans and Development Orders/Regulations of the Urban Development Authority.	That letters have been directed to the relevant builders to submit the documents to the council that can prove whether approval has been obtained for the buildings in question as soon as possible and that the necessary further action will be taken accordingly.	Action should be taken according to the gazette notification.

3.3 Operating Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Although 186 Development Permits were granted for the Construction of buildings between 2015 and 2021, yet compliance certificates were obtained for only 31 buildings.	That Letters have been sent to the Building License holders who have not obtained compliance certificates and to the House Owners whose Construction has not yet been completed to extend the Building Permit to do so in accordance with the Urban Development Authority Act.	Should be done as per the gazette notification.
(b) An expenditure of Rs.211,935 was not reimbursed from the Council Fund due to non-installation of streetlamps as per PR/01/01 Circular of the Secretary of the Ministry of Power and Energy dated 17th August 2010,	That the amount was not received despite the requests.	Action should be taken according to the circular.

3.4 Procurement Management

Audit Observation

The three-wheeler owned by the council was not repaired by the company that had offered the lowest price of Rs.194,550 for the repair, yet the repair was done by the company that offered a higher price of Rs.216,800 without an Engineer's recommendation.

Comment of the Sabha

That the prices offered by a private motor company were selected based on the time taken for the repair and the time to be completed and the expertise of the company in concern.

Recommendation

More favorable prices should be chosen.