

Kotapola Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kotapola Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 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 Kotapola 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 provision had not been made for Rs.4,533,758 payable to the Local Government Pension Contributory Fund under sundry creditors at the end of the year under review.	The provision will be made after the relevant confirmation received from the Director of Pensions.	Should be accounted correctly.
(b) The receivable stamp duties of Rs. 8,774,750 and court fines had not been accounted for as revenue receivable at the end of the year under review.	Will be accounted correctly.	Should be accounted correctly.
(c) The interest of Rs.495,478 relating to 04 fixed deposit accounts maintained by the Sabha in the bank had not been accounted at the end of the year under review.	Will be accounted correctly	Should be accounted correctly.
(d) The interest income amounting to Rs. 201,389 received in relation to two fixed deposit accounts which were closed and 03 fixed deposit accounts and matured in the year under review had been understated.	Will be accounted correctly	Should be accounted correctly.
(e) The advertising board fees amounting to Rs.1,047,000 due at the end of the year under review for 134 advertising boards displayed in the Sabha area had not been accounted.	When legal action was taken, only a fine of Rs.750 was charged, so it was not accounted.	Should be charged and accounted correctly.
(f) The provision had not been made under sundry creditors for various payable expenses amounting to Rs.538,427 at the end of the year under review.	Will be accounted correctly	Should be accounted correctly.
(g) In the previous year and the year under review, the finished work value of Rs.	Will be accounted correctly	Should be accounted correctly.

3,689,168 for the development of land and buildings owned by the Sabha had understated under the land and buildings.

- (h) A provision of Rs.3,000,000 had been done aside under construction Creditors without specifically identifying. Will be accounted correctly Should be accounted correctly.

1.6.2 Suspense account

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
The action had not been taken to identify and settle the debit balance of the suspense account of Rs.64,848 which has been coming on for many years even in the year under review.	Action will be taken to correct.	The action should be taken to correct as soon as possible.

1.6.3 Lack of Documentary evidence for Audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Due to non-submission of fixed assets register, detailed schedule and balance confirmation etc. 14 accounting items totaling Rs.43,992,266 could not be satisfactorily vouched for during the audit.	The action will be taken in the regard 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 -----
Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 103 (i)	The action had not been taken in accordance with the financial regulations Regarding the accident that occurred on 12 October 2022 to the cab owned by the Sabha.	The action in relation to the accident, has been properly processed as per F.R.103(I) for damages.	Action should be taken according to the Financial Regulation.

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. 5,833,966 as compared with the excess of recurrent expenditure over revenue amounted to Rs. 4,599,518 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	2,113,000	1,742,876	1,893,544	1,045,645	2,145,000	1,472,808	1,377,480	1,196,313
(ii) Rent	6,610,000	4,613,649	4,888,161	1,266,888	8,280,000	3,318,152	3,064,362	1,541,400
(iii) License Fees	2,837,000	298,247	298,247	-	1,412,000	133,450	133,450	-
(iv) Other Revenue	13,947,000	4,122,398	4,087,785	2,391,823	12,358,500	8,059,795	7,393,557	2,357,210
Total	25,507,000	10,777,170	11,167,737	4,704,356	24,195,500	12,984,205	11,968,849	5,094,923

2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the Sabha.

Audit Observation	Comment of the Sabha	Recommendation
(a) According to Section 20 of the Valuation Act No. 30 of 1946, assessed property should be assessed once in 05 years, however in the year under review, 701 assessment units were being levied on the assessed value of the property in the year 2005.	In the year 2023, the assessment was done based on the 2020 assessment report, and now the assessment fees are being revised and charged according to the new assessment report.	Tax should be charged based on the correct assessed value.
(b) The assessment tax had not been collected from the developed areas which were gazette on 09 December 2011 even up to the end of the year under review.	Kotapola North and Kotapola South Grama Niladhaaree division have been identified as developed areas in the year	Assessment tax should be levied and collected in the areas developed by the

- | | | | |
|-----|--|---|---|
| | 2022 and it has been mapped and sent to the Assistant Commissioner in 2023 to be gazette, and accordingly the necessary actions are being carried out to collect the assessment tax. | council. | |
| (c) | The action had not been taken to collect the outstanding entertainment tax revenue amounting to Rs. 419,132 which had been going on for many years even as at the end of the year under review. | The Assistant Commissioner of Local Government has been asked for advice; however, the advice has not been received so far. | Arrears of income should be collected as soon as possible |
| (d) | There was an outstanding balance of Rs.252,172 from 15 shops at the end of the year under review, and outstanding balances were more than Rs.6,000 in respect of 10 shops. | The arrears are being collected. | Arrears of income should be collected as soon as possible |
| (e) | The rent was not assessed in relation to 21 shop rooms in the shopping complex in front of Deniaya bus station, and in relation to 03 shop rooms in front of Kotapola National School, a sum of Rs.950,000 which was to be charged for the lease of shop rooms had not been collected by the end of the year under review. | The necessary action will be taken to get a new assessment in future and the arrears will be recovered. | The Shop rooms should be assessed and arrears should be collected promptly. |
| (f) | In the tax rent deficit of Rs.1,266,888 at the end of the year, the arrears tax of fish shop which exceeded 01 year was Rs. 966,716, out of that outstanding balance over 03 years was Rs.687,651. | The legal action has been taken to recover the outstanding balance. | Arrears of income should be collected as soon as possible |
| (g) | The charges had not been collected from 09 hotels restaurants and lodgings in Kotapola Pradeshiya Sabha area registered with the Sri Lanka Tourism Board according to the Section 149 of the Pradeshiya Sabha Act No. 15 of 1987, 09 hotels. | The steps will be taken to charge license fees not exceeding 1% from the year 2023. | Urgent measures should be taken to collect non-taxable income. |

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

In the terms of sub-section 126 of the Pradeshiya Sabha Act No. 15 of 1987, the by-laws had not been enacted regarding approval of building plans, land subdivision and renting of the auditorium in the non-urban area.

Comment of the Sabha

The relevant by-law draft for non-urban areas has been forwarded to the Matara Local Government Assistant Commissioner for approval.

Recommendation

The by-laws should be prepared as soon as possible.

3.2 Operational Inefficiencies**Audit Observation**

In relation to 03 commercial and non-commercial buildings and 01 boundary wall which were newly constructed and under construction within the municipal area belonging to the Pradeshiya Sabha, to take action as per the regulations of Gazette Notification No. 2235/54 dated 08 July 2021 containing planning and development orders/regulations or formal If there is a possibility to do so, as mentioned in the 02 nd schedule of the gazette notification, an action had not been taken charged fee of Rs. 1,084,790 or formalized.

Comment of the Sabha

The relevant party has been informed to submit the documents required for confirmation immediately.

Recommendation

Necessary action should be taken immediately.

3.3 Deficiencies in contract administration**Audit Observation**

- (a) During the implementation of the volleyball playground development project of Mathara/Pallegama Maha Vidyalaya under the program for the Development of Sports grounds located in the local government areas of the southern province, Rs.232,543 had been overpaid by using wrong rates and Rs.114,642 had been paid for the coir layer without price analysis.

Comment of the Sabha

The price rates of the Southern Province Engineering Services Office had been used.

Recommendation

Payments should be made using the prescribed rates.

- | | | | |
|-----|---|--|--|
| (b) | Under the 2021 Pradeshiya Sabha Infrastructure Development Program of the State Ministry of Provincial Councils and Local Government, the construction completed work of Rs. 4,033,233 in Deniyaya weekly fair had stopped and the constructed parts were deteriorating due to natural causes and the project was not achieving its desired objectives. | The estimate has been prepared and forwarded for the necessary future work and that the works of the relevant project will be completed before the end of the year 2023. | Arrangements should be made to finish the work of the project as soon as possible. |
|-----|---|--|--|

3.5 Human Resources Management

Audit Observation

12 work/field laborer working in the council, a health laborar, a water assistant and a crematorium operator were not assigned the prescribed duties related to the post and for that, Rs.7,248,347 had been spent from the council fund as salaries and allowances in the year under review.

Comment of the Sabha

The duties are assigned based on factors such as qualifications, service requirement, medical reasons etc.

Recommendation

The relevant duties related to the position should be assigned.