

Kegalle Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Kegalle Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Subsection 172(1) of the Pradeshiya Sabhas Act, No. 15 of 1987 and provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Kegalle Pradeshiya Sabha as at 31 December 2022, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 Sub-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 to be prepared of the Sabha.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 presented by the Pradeshiya Sabha are 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 preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The stamp fees in arrears amounting to Rs.297,000 for the year 2019 had been brought to accounts twice.	Will be corrected	Accounts should be corrected
(b) Vibrator Roll, Plate Compactor, Tar boiler and generator amounting to Rs.1,214,289 had been brought to accounts under motor vehicles and carts instead of brought to accounts under machinery.	Will be corrected	Accounts should be corrected
(c) A grass cutting machine at a value of Rs.79,900 which was not remained physically had been brought to accounts under fixed assets.	Future actions will be taken after the basic investigation being carried out.	Accounts should be corrected

1.6.2 Un reconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
(a) A difference of Rs.19,101,869 was existed in the balance of 19 various assets and revenue accounts according to the financial statements , when reconciliation with each subsidiary documents .	Action will be taken to reconcile those difference	The figures in the financial statements should be reconcile with subsidiary documents.

2 Financial Review

2.1 Financial result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 42,347,642 as at 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.36,210,272.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

According to the information presented, the information on estimated revenue, billed revenue, collected revenue and revenue in arrears relevant to the year under review and the preceding year are given below.

Source of Revenue	2022				2021			
	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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	3,237,700	3,368,627	2,148,977	2,345,531	3,200,200	3,262,965	1,858,921	2,443,431
Rents	4,134,400	3,904,325	3,721,175	280,745	3,767,000	5,285,700	3,397,100	547,041
License fees	980,100	882,246	882,246	-	600,000	826,955	649,500	-
Other Income	<u>3,996,500</u>	<u>6,160,291</u>	<u>4,256,085</u>	<u>1,904,205</u>	<u>3,144,100</u>	<u>4,025,393</u>	<u>2,264,920</u>	<u>190,110</u>
	<u>12,348,700</u>	<u>14,315,489</u>	<u>11,008,483</u>	<u>4,530,481</u>	<u>10,711,300</u>	<u>13,401,013</u>	<u>8,170,441</u>	<u>3,180,582</u>

2.2.2 Performance on Collecting Revenue

Observations	Comments of the Sabha	Recommendation
A sum of Rs. 2,430,216 was due from the items of revenue of Rates, acreage tax and stall rents, as at 31 December 2022. That value included a balance of Rs. 1,427,398 overdue between 01 and 05 years and another balance of Rs. 706,522 overdue for more than five years.	Action will be taken to recover the arrears and to write off the balances which are unable to recover.	The revenue in arrears should be recovered immediately.

3. Operating Review

3.1 Management Inefficiencies

Observations	Comments of the Sabha	Recommendation
(a) 06 buildings ,a land 1 ½ in extent, office store goods and 1246 inventory goods had not been brought to accounts by asserting and identifying the price.	Will be brought to accounts in due course	Assets should be brought to accounts to the proper value.
(b) Revenue license had not been obtained from 2016 up to date for the Backo machine received in the year 2015 .	Informed to the Department of Motor Traffic to rectify the registered certificate.	The ownership of assets should be settled.
(c) A sum of Rs.33,791,348 should have been recovered from the industry debtors and a sum of Rs.26,543,620 should have been paid for the creditors.	Agreed	Action should be taken to settle balances.

3.2 Operating Inefficiencies

Observations	Comments of the Sabha	Recommendation
(a) Although 55 places had been identified in the area for parking three wheelers, those places had not been prepared in a manner to charge fees. As such, the money received to the council as parking charges had been brought to accounts as the income of the year, instead of charging fees from vehicles.	The ownership of three wheeler parks is belonging to the Road Development Authority. Preparing a place by entering into an agreement with the same Authority and Money will be charged .	All income receivable should be recovered.
(b) In terms of Declaration of Assets and Liability Act, No.01 of 1975, 22 members had not been submitted the said statements which should be submitted firstly and 27 members had not been submitted the same annual statements from the year 2019 to 2022.	Submitted statements of assets and liability has been forwarded to the Commissioner of Local Authorities.	Action should be taken in accordance with the Circular.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) 03 vehicles valued at Rs.21095,000 received in the year 2014 had not been vested to the Sabha.	Even though action was taken to vest 02 vehicles, vesting had delayed due to a difference existed in the chassis number of the backo machine.	The ownership belonging to the Council should be settled.
(b) 02 vehicles belonging to the council valued at Rs.971,877 were remained in operative condition from the period between 10 to 12 years.	One of those vehicles will be disposed after receiving of approval.	Assets should not be kept un used.
(c) Even though a sum of Rs.1,694,935 was spent for the construction of a day care centre, it had been closed from October 2019 due to unable to recruit a matron for it. As such 19 units of goods amounted to Rs.140,650 issued to that centre had not been handed over to an officer by entering in the inventory.	The same building will be used as a narcotic preventive advisory centre and a self employee training centre until the required actions taken. The relevant goods are kept in the general stores safely.	Expected objective should be fulfilled.

3.4 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
Contrary to the Public Finance Circular No.01/2021, out of the total number of contracts fulfilled in the years 2021 and 2022 ,78 per cent and 68 per cent had been awarded to the same contractor respectively.	It was done by the agreement of the general council due to the contract societies had not been presented.	Action should be taken according to the relevant circular.

3.5 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
Loan balance amounting to Rs.276,984 recoverable from 04 officers who were transferred out, retired, vacated post was older than from 4years to 6 years.	Necessary actions are being taken for the recovery of the loans in arrears.	Balances in arrears should be recovered.