

## **Karadeniya Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Karadeniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Operations, statement of changes in net assets, 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 Karadeniya 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 Practices.

#### **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 Practices 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

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) The Sabha had not capitalized the expenditure of Rs.673,160 incurred for the development of buildings in the year under review.	Will be corrected in future.	Should be accounted properly.
(b) The provision had not been made for Capital creditors amounting to Rs.20,020,739 as at 31 December of the year under review.	-do -	- do -
(c) The key money sum of Rs.25,390,600 billed for 08 shops room in the year under review, had not been accounted.	- do -	- do -
(d) The discount of Rs.310,748 given for the purchase of library books was not accounted in the year under review and in the previous year.	- do -	- do -
(e) The library books valued at Rs. 128,173 which were received as donations in the year under review, had not been accounted under the income and capital expenditure of the year.	Will be corrected in future.	Should be accounted properly.
(f) The value of the prime land belonging to the Sabha was Rs.100,000 and the value of Talgahawatta land which was 40 perches had not been identified and capitalized.	- do -	- do -

## 1.6.2 Non reconciled control account or records

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
There was a difference of Rs. 19,001,530 between the balances related to 10 accounting items shown in the financial statements as at 31 December of the year under review and the balances shown in the related utility registers.	Will be corrected by in future.	Action should be taken to rectify the accounts after comparing differences.

## 1.6.3 Lack of Documentary evidence for Audit

<b>Subject</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Due to non-submission of necessary detailed schedules for the confirmation of 04 accounting items aggregating to Rs. 14,476,768 could not be examine satisfactorily.	The action will be taken to examine the old documents and documented.	Evidence should be submitted to confirm the account balances.

## 1.7 Non-compliances

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

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

<b>Reference to Laws, Rules, Regulation and Management Decisions</b>	<b>Non – Compliance</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) Rule 218 of the Pradeshiya Sabha (Finance and Administration) Rules,1988	An annual survey of the lands and buildings owned by the Sabha had not been conducted.	The action will be taken to survey and presented.	Action should be taken in accordance with the Rules .
(b) The Financial Regulations 571 of the Democratic Socialist Republic of Sri Lanka	Deposits aggregating to Rs.1,528,655 over a period of 02 years were not disposal.	Action are being taken to get to the income.	Action should be taken according to the Financial Regulations.

## 2. Financial Review

### 2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 56,352,864 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 3,074,312 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 Sabha, 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)
Rates and Taxes	3,578,798	2,955,934	3,219,079	5,987,497	3,208,798	2,968,781	14,939,107	6,250,642
rent	7,893,230	6,481,989	22,230,310	18,373,621	7,693,230	10,846,495	77,215,527	34,121,942
License Fees	400,100	172,935	172,935	125,350	355,100	170,258	418,958	125,350
Other revenue	8,376,600	7,868,597	7,868,597	45,192	6,496,100	423,383	513,767	45,192
	<u>20,248,728</u>	<u>17,479,455</u>	<u>33,490,921</u>	<u>24,531,660</u>	<u>17,753,228</u>	<u>14,408,917</u>	<u>93,087,359</u>	<u>40,543,126</u>

#### 2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below

	Audit Observation	Comment of the Sabha	Recommendation
(a)	The total arrears due on 01 January of the year under review was Rs.40,543,126, and at the end of the year under review it was Rs.24,531,660.	The Plans have been made to recover the arrears.	Arrears should be recovered as soon as possible.
(b)	The assessment valuation of the Sabha had not been done in 14 years.	The valuation of assessment will be done in the year 2023.	The assessment tax has to be updated and recovered.

(c) The taxable rent income was Rs.34,121,942 at the beginning of the year under review and, it was Rs.18,373,621 at the end of the year.	The comments had not been given.	Arrears of income should be recovered as soon as possible.
(d) The action had not been taken to recover key money of Rs. 36,230,400 due from 43 shop rooms by the Sabha as at the last day of the year reviewed. The agreements had not been entered in respect to 05 shop rooms owned by the Sabha, and the agreements of 56 shop rooms had been expired.	The actions are being taken to recover the arrears and enter in to the agreements.	Arrears of income should be recovered as soon as possible and agreements should be updated.
(e) The court fines amounting to Rs.708,033 for and the stamp fees amounting to Rs.74,150 should have been received from the Chief Secretary of the Provincial Council as at 31 December of the year under review.	The notification had been given to pay the money	The arrears of income should be brought immediately.

### 3. Operational Review

#### 3.1 Solid Waste Management

##### Audit Observation

The non-perishable waste recycling center belonging to the Sabha had caught fire, and the Sabha had incurred amounting to Rs.1,973,715 for its reconstruction, and the action had not been taken to identify the responsible party at the end of the year 2022,

##### Comment of the Sabha

It was repaired according to a Sabha decision.

##### Recommendation

The responsible parties should be identified and legal action should be taken.

#### 3.2 Assets Management

##### Audit Observation

(a) The current value of 08 lands owned by the Sabha had not been valued.

##### Comment of the Sabha

The actions are being taken to valued in future.

##### Recommendation

Assets should be valued and documented.

(b) 14 shops owned by the Sabha located in the area of Kurudugaha Hathekman were closed for a long time without being utilized.

Answer had not been submitted.

The Arrangements should be made to make maximum use the property of the Sabha.

### 3.3 Deficiencies in contract Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) Although the excavator machine had been used for cutting the soil required for the construction of sidewalls and drains in relation to 04 construction work in the year under review, due to the use of the price rate for cutting soil by human labor of the Southern Provincial Road Development Authority for that activity, an overpayment of Rs. 93,123 had been made for 175 square meters.	The soil was cut by machines.	The overpayment should be recovered.
(b) Regarding the construction of side walls with plum concrete in relation to 2 construction work, although the form work was done using plywood boards for that activity, an overpayment of Rs.723,782 for 175 square meters had been made due to non-application of the prescribed price rate.	The only price rate of Road Development Authority for applying form using Plywood Sheet is ST-63.	- do -
(c) In relation to 03 construction work Rs.18,577 for concrete work, Rs.34,521 for stone filing and Rs.46,250 for mud removal aggregating to Rs.99,348 had been overpaid.	It had been done in a standard and formal manner.	- do -
(d) There was no need to excavate the soil for the development work of the T.D.Samaraweera Stadium, however Rs.344,894 for that activity, and Rs.44,432 for without using the fixed rate for concrete work, aggregating to Rs.389,326 had been over paid.	The standard way to measure soil size is to dig up the soil and take measurements.	- do -
(e) The action had not been taken to start and complete 03 construction work valued at Rs.12,947,380, which were to be completed during the year under review.	The two construction work have been started.	Planned projects should be implemented.

### 3.4 Human Resources Management

Audit Observation	Comment of the Sabha	Recommendation
29 loan balances value at Rs.334,730 had not been recovered at the end of the year under review.	The debt balances are being recovered.	The action should be taken to recover outstanding loan balances.