

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kotagala Pradeshiya Sabha for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, including a summary of significant accounting policies, 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 Sub-section 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 accompanying financial statements give a true and fair view of the financial position of the Kotagala Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 for Local 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 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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism 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 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 the Pradeshiya Sabha 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- (a) The Financial Statements presented are consistent with that of the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.

- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(1) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit observations on the preparation of Financial Statements

1.6.1 Accounting Policies

Audit Observation	Comment of the Sabha	Recommendation
04 court cases instituted by the Pradeshiya Sabha against outside parties had not been disclosed in the financial statements.	That the action will be taken to disclose them when final accounts as at 31.12.2023 get into preparation.	Such information should be disclosed in the financial statements.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The advertisement board income of Rs. 669,600 in relation to the preceding year had been reckoned as income of the year under review and the receivable advertisement board income of Rs. 310,400 related to the year had not been accounted for.	That the action will be taken to rectify them when final accounts as at 31.12.2023 get into preparation.	Income should be correctly recognized and accounted for.
(b) The income of stamp duty received and those receivable for the preceding year and the income of court fines receivable also for the preceding year had been understated by Rs. 2,506,257 and overstated by Rs. 951,378 and Rs. 2,406,257 respectively.	- Do -	- Do -
(c) The income of court fines in relation to the year subject to review had been overstated by Rs. 4,462,667.	- Do -	- Do -
(d) 15 creditor balances amounting to Rs. 680,268 as at the end of the year under review had not been accounted for under creditors.	That the action will be taken to rectify them when final accounts as at 31.12.2023 get into preparation.	Account balances should be rectified.
(e) Due to non-adjustment of the remaining amount of money when the respective bill value is lower than the contract value of the development projects, the over-allocations amounting to Rs. 2,473,276 in relation to 24 works had further been shown under creditors.	- Do -	This should be correctly accounted for.

1.7 Non-compliance

Non-compliance to laws, rules and regulations

Instances of non-compliance to laws, rules and regulations are as follows :

	Reference to laws, rules and regulations	Non-compliance	Comment of the Sabha	Recommendation
(a)	Circulars of the Commissioner of Local Government.			
i.	Circular No. CP/CLG/20/16/03 dated 17 March 2016.	The rent assessed by a Revenue Inspector in the year 2014 in respect of 37 stalls was still under collection during the year under review without obtaining a valuation from the Chief Valuer.	That the valuation reports have not yet been received for the 37 stalls up to this date.	Circular instructions should be followed.
ii.	Circular No. 1988/22 dated 17 May 1988.	Even though the valuation of assessment properties should be carried out once in 05 years, the assessment properties in the Pradeshiya Sabha area had not been assessed after the year 2008.	That the request for valuation has been made to the Valuation Department, but the task concerned is yet to be materialized.	Circular instructions should be followed.

2. Financial Review

2.1 Financial Results

In Accordance with the financial statements presented, the income over the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2022 was Rs. 2,041,249 in comparison to the income over the recurrent expenditure of the preceding year amounting to Rs. 5,404,452.

2.2 Revenue Administration

2.2.1 Estimated income, Billed income, Collected income and Outstanding income

According to the information furnished by the chairman, the particulars with regard to estimated income, billed income, collected income and the income in arrears concerning the year under review and the preceding year are as shown hereunder

Source of Income	Estimated Income	2022			Total Income in arrears as of 31 December	2021			Total in arrears as of 31 December
		Billed Income	Collected Income			Estimated Income	Billed Income	Collected Income	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
(i) Rates and Taxes	3,495,000	3,520,433	3,373,986	4,347,392	3,545,000	3,478,673	3,837,390	4,200,945	
(ii) Rent	3,201,000	2,157,361	1,978,529	726,629	1,370,000	1,936,676	1,922,761	547,796	
(iii) Licence Fees	2,058,700	122,166	109,957	22,794	1,250,200	1,779,821	1,697,946	10,585	
(iv) Other Income	25,383,000	28,767,699	20,002,960	19,886,973	51,739,720	20,746,394	45,128,066	11,122,234	
	34,137,700	34,567,659	25,465,432	24,983,788	57,904,920	27,941,564	52,586,163	15,881,560	

2.2.2 Performance in the collection of income

Observations in relation to the performance in the collection of income of the Pradeshiya Sabha are given below :

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Rates and Taxes		
i.	The arrears of assessment amounting to a total of Rs. 1,429,654 over a period more than 05 years and the assessment of Rs. 1,106,278 arising from the owner unidentified 433 properties had not been recovered as at 31 December of the year under review.	That the action has been taken to send letters of demand through the lawyer of the Pradeshiya Sabha for the amounts of money due from the government departments and that further action is also underway to collect the money in arrears by identifying the properties that remained unidentified.	Action should be taken to collect arrears of income in pursuance of the provisions of the Act.
ii.	Lease rents amounting to Rs. 137,429 in respect of the periods ranging from 04 months to 155 months had not been collected from the lessees of 40 plots of land owned by the Pradeshiya Sabha.	That a problematic situation has arisen in recovering the money as the Nuwara Eliya Pradeshiya Sabha has not followed the legal procedure in the lease out of these lands.	Income in arrears should be collected.
(b)	Rent		
	The stall rents of Rs. 361,267 as at the end of the year under review had not been collected in relation to periods ranging from 01 to 22 months pertaining to 41 stalls.	That the arrears are to be collected very early.	Action should be taken to recover the arrears.

(c) Court fines and Stamp duties

The court fines and stamp duty receivable from the Chief Secretary of the Provincial Council and other authorities as at the end of the year under review, amounted to Rs. 6,822,415 and Rs. 13,064,558 respectively.

To be reimbursed from the Chief Secretary.

Income should be brought in.

3. Operational Review

3.1 Execution of duties entrusted by the Act

The state of affairs observed with regard to the carrying out of the duties that should have been attended to by the Pradeshiya Sabha in the regularization and control of the matters relating to public health, public utility services and public roads and roadways, and in bringing about the public wellbeing, amenities and welfare under section 3 of the Pradeshiya Sabhas Act were as given below :

Audit Observation	Comment of the Sabha	Recommendation
(a) Despite the fact that the Pradeshiya Sabha is required to carry out the transport of sewage and waste treatment in pursuance of sections 93 to 95 of the Pradeshiya Sabha Act, there had been no gulley bowser service owned by the Pradeshiya Sabha even though a period of four years has passed since the establishment of the Sabha.	That the Pradeshiya Sabha does not possess the financial resources to acquire a gulley bowser.	The duties of the Act should be carried out.
(b) During the year under review, no money had been utilized from the Pradeshiya Sabha fund for the construction and improvement of the roads and roadways and no work had been attended to have the roads published in the gazette in accordance with section 27 of the Pradeshiya Sabha Act.	That the action will be taken to set aside Pradeshiya Sabha funds for the construction and improvement of the roads and roadways.	The duties of the Act should be carried out.
(c) Even though the public drains are required to be constructed in accordance with sections 79 and 80 of the Pradeshiya Sabha Act, the drainage system passing through the houses of Vanigasekarapura in Kotagala had not been repaired over a period of 50 years. The drainage system, at the time of its physical inspection, was in very dilapidated state.	Since a very large amount of money has to be spent on the construction of this drainage system, it is expected to prepare estimates thereon and implement them on a case-by-case basis according to the availability of the financing capacity of the Pradeshiya Sabha.	Steps should be taken to attend to the repairs.

3.2 Management inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Due to the absence of deeds and plans for 05 lavatories, no action had been taken to include them in the assets register.	That the lavatories being identified and accounted for.	Lavatories should be included in the assets register.
(b) The land in extent of 160 perches with a tea cultivation in the Argyle area, which the Pradeshiya Sabha had received for use as public land through a land auction in the year 2015 had been fixed with a net fence at the expense of the Pradeshiya Sabha and the tea leaves therein had been pruned up by employing the workers from the Pradeshiya Sabha. Even though the income of this properly kept up and maintained land by the Sabha had been received by an outside person for the past 07 years, the PS, without paying any heed to it, had obtained the approval of the Sabha to lease out the land on a thirty-year basis, suggesting that this land would not generate any income for the Pradeshiya Sabha.	That a tenderer recognized through a tender procedure following the publication of advertisements in two newspapers will be selected in a transparent manner in the future.	Action should be taken to collect the income of the Pradeshiya Sabha properly and the land should be used in keeping with the purpose to which the Pradeshiya Sabha has been entrusted with.

3.3 Contentious Transactions

Audit Observation	Comment of the Sabha	Recommendation
An access road had been permitted through the compost yard of the Pathana Solid Waste Management Yard to two persons who were indulging in unauthorized cultivation on a plot of land belonging to the Land Reforms Commission adjacent to the said Yard.	That the former chairman has given permission for this purpose.	Unauthorized entryways should be removed.

3.4 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) No arrangements had been made to take over the land with the garbage yard.	That the action will be taken to acquire the land in favour of the Pradeshiya Sabha.	Action should be taken to take over the land.
(b) The office equipment to the value of Rs. 1,192,670 made available by the Ministry	That this situation has arisen due to the absence of an	Action should be taken to see to the

of Local Government on 05 October 2020 with the objective of providing basic facilities to the Pradeshiya Sabhas subsequent to their establishment as separate bodies had been stored up without any use in the stores of the office. utilization of the equipment.

- (c) A part of the Argyle playground belonging to the Pradeshiya Sabha had been occupied by the unauthorized residents and the security of the playground had not been ensured by fixing up boundary fences around it. That the action will be taken to correct the shortcomings. Action should be taken to remove unauthorized settlements.

3.5 Delays in projects, functions or capital work

Audit Observation	Comment of the Sabha	Recommendation
The Pradeshiya Sabha, for the purpose of constructing a new building, had entered into an agreement and awarded the construction work thereon on 11 May 2015 for Rs. 83,373,432 and paid a sum of Rs. 21,559,211 for it by 31 December 2016. Due to the administrative and technical issues, the work thereof had not been completed even as at the end of the year under review.	That the action will be taken to get this work executed by the Engineering Services Department of the Central Province.	Action should be taken to have the construction work completed.

3.6 Management of contracts

Audit Observation	Comment of the Sabha	Recommendation
Even though the plans had been drawn out to develop the Chamers concrete road at an estimated cost of Rs. 1,000,000 with a width of 08 feet so that it can be used for vehicle traffic, the desired objective could not have been accomplished owing to the width of the said road being 4 ½ feet.	That the action will be taken in the future to draw out plans to put in place a drainage system and to make available the required provisions for the purpose from the Ministry of Estate Housing and Infrastructure.	Estimates should be prepared in such a way as to fulfil the desired objectives.

3.7 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
(a) There had been 38 vacancies in 14 posts of the Pradeshiya Sabha's cadre. The fact that 17 health worker posts out of it being rendered vacant had been an impediment to the waste management work of the Pradeshiya Sabha.	That the top management has been apprised of towards addressing the relevant deficiencies as pointed in the audit.	Should get the vacancies filled.

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| (b) | A loan balance of Rs. 201,720 had not been recovered from an employee who had vacated the post. | That the action will be taken to recover it from the person who has signed the surety. | Credit balances should be recovered. |
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3.8 Management of the fleet of vehicles

Audit Observation	Comment of the Sabha	Recommendation
(a) No examination having regard to Financial Regulation 104 (3) had been conducted in connection with a vehicle that had met with an accident on 05 April 2019.	That the action will be taken in accordance with the instructions received from the Department of Local Government.	Examinations should be carried out and necessary action taken.
(b) The ownership of 04 vehicles that had been provided by the Nuwara Eliya Pradeshiya Sabha in 2018 had not been acquired.	That the application required for the takeover of the vehicles in favour of the Pradeshiya Sabha has been forwarded to the Nuwara Eliya Pradeshiya Sabha.	Action should be taken to acquire the ownership.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Sabha	Recommendation
Even though an official website for the Pradeshiya Sabha was being designed from 17 June 2021 onwards for the purpose of implementing the e-local government system, the work thereof had not been completed up until the end of the year subject to review.	That an official website for the Pradeshiya Sabha is being designed and 80 percent of the work thereof has currently been completed.	Action should be taken to see to the completion of tasks.

4.2 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
According to the budget prepared for the year subject to review, when the estimated income and expenditure in comparison with the actual income and expenditure, there were variations observed from 07 percent to 47 percent in 06 revenue objects and 06 percent to 18 percent in 06 expenditure objects, and as such, the budget had not been used as an effective tool of control.	That the action will be taken to ensure the non-occurrence of deficiencies of this nature in the future.	The budget should be prepared attentively having reckoned the real necessity.

4.3 Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
There was no waste recycling in operation at the solid waste management yard in Pathana and all the waste material obtained in mixed form had been discharged into the environment. A place to keep materials of polythene and plastic properly following their collection had not been fixed up.	That the shortcomings are attended to and corrected.	Solid waste should be properly managed.