

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kuliyapitiya 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 performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, 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 provisions of the National Audit Act No. 19 of 2018 and Sub-section 172(1) of the Pradeshiya Sabha Act, No. 15 of 1987. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Kuliyapitiya Pradeshiya Sabha as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with generally accepted accounting practices for Local Government Authorities.

1.2 Basis for Qualified Opinion

A qualified opinion on financial statements will be expressed based 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 determines 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 Pradeshiya Sabha..

1.4 Scope of Audit (Auditor's Responsibility 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 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 Pradeshiya Sabha's 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 includes specific provisions for following requirements.

- a) The financial statements of 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 following recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit observations related to the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The loan balance due on 31 December 2022 for the loan taken from the Local Credit Development Fund for the construction of the Katupotha two-storied mall had been overstated by Rs.133,440.	That the financial statements as at 31 December 2023 will be corrected.	Proper accounting should be done.
(b) Bank interest income of Rs.53,750 related to the year 2022 was not accounted for.	- Do -	- Do -
(c) The value of the CCTV camera system in the main office premises which was Rs.1,600,000 was not accounted for and a land worth Rs.10,000 was accounted for twice.	- Do -	- Do -

1.6.2 Unreconciled Control Account

Audit Observation	Comments of the Sabha	Recommendation
Regarding 07 items, there was a difference of Rs.228,395,229 between the values of the financial statements and the values of the relevant schedules.	That the correct schedule be prepared and submitted by 31 December 2023.	Correct balances should be accounted for.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made for Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
570 and 571 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	145 overdue deposits worth Rs.759,878 had not been regulated.	That the deposit balances are released.	Actions should be done according to financial regulations.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 was Rs. 63,416,759 as compared with the corresponding revenue over recurrent expenditure of Rs. 44,280,502 of the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Sabha	Recommendation
The bad cheques amounting to Rs. 52,752, which have been in existence for several years, had not been processed according to the financial regulations.	That the bad cheques amounting to Rs. 52,752, which have been in existence for several years, will be dealt with expeditiously in accordance with financial regulations 391.	Relevant balances should be identified and settled quickly.

2.3 Revenue Management

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears of Revenue

Below is the information about the estimated revenue, billed revenue and arrears of revenue submitted in relation to the year under review and the previous year.

Item of Revenue	Estimated Revenue	Billed Revenue	Collected Revenue	Total deficit as of December 31 from billed revenue	Estimated Revenue	Billed Revenue	Collected Revenue	Total deficit as of December 31 from billed revenue
	₹000.	₹000.	₹000.	₹000.	₹000.	₹000.	₹000.	₹000.
(i) Rates and Taxes	3,609	3,851	3,797	888	2,605	2,450	2,450	832
(ii) Rental	10,984	10,537	10,556	5	973	8,986	8,986	1,663
(iii) License Fees	1,160	1,065	1,065	0	803	803	803	0
(iv) Other Revenue	15,669	19,100	17,867	329	443,398	443,398	439,692	266,023
	31,422	34,553	33,285	1,222	447,779	455,637	451,931	268,518

2.3.2 Performance of Collection of Revenue

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Rates and Taxes</p> <p>The rates balance as on December 31 of the year under review was Rs.381,960 for 1-5 years and Rs.98,032 for more than 5 years.</p>	That the arrears of rates will be recovered.	Arrangements should be made to recover outstanding balances promptly.
<p>(b) Acreage tax</p> <p>As on 31 December of the year under review, there was a balance of Rs.278,989 acreage tax which was more than 05 years old..</p>	That the acreage tax will be collected.	- - do
<p>(c) Court Fines and Stamp Duty</p> <p>Court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December 2022 were Rs.12,199,963 and stamp duty was Rs.125,144,362.</p>	That necessary actions are taken to collect stamp duty.	Receivable balances should be brought in quickly.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The value of 03 accounts receivable balances as on 31 December of the year under review was Rs.70,255,161 and in those balances, there was a balance of Rs.69,878,140 relating to a period between 1-5 years and a balance of Rs.377,021 more than 5 years old remained unpaid.	Action should be Taken to settle in preparing the financial statements as a5 31 December 2023.	Arrangements should be made for quick settlement of the receivable balances.
(b) The total value of 10 accounts payable balances as on 31 December of the year under review was Rs.6,649,575 and the deposits and payable balances for the period between 1 and 5 years were Rs.6,096,729 and the previous receipts were Rs.453,663. Total value related to 7 refundable deposit items older than 5 years was Rs.99,184.	- - do	Arrangements should be made for prompt settlement of the payable balances.
(c) During the year under review, 17 leasable plots of fish market, restaurant and leasable agricultural land owned by the council were not leased.	That tenders were called to lease those assets, but as no one came forward, it was not possible to lease those assets.	Arrangements should be made to generate income from leasable assets.

3.2 Asset Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Arrangements for the taking over of 107 cemeteries owned by the council had not been completed.	That the necessary arrangements are made for taking over.	Actions should be taken to take ownership of the assets.
(b) Land and buildings fixed asset register and street lighting register had not been maintained up to date and fixed asset registers had not been maintained for machinery, furniture and equipment, cars and carts.	That documents will be updated after a full survey of assets.	All assets must be documented and maintained up-to-date.

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| (c) | Lands owned by the council were not formally surveyed and all street lamp posts owned by the council were not properly numbered. | That the necessary activities have been planned to complete the survey activities by the end of August 2023. | Security of assets should be adequately ensured. |
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3.3 Idle/Underutilized Assets

Audit Observation

The council had 69 tube wells, of which 15 were inactive.

Comments of the Sabha

15 tube wells belonging to the council have become inoperative due to being blocked by tree roots.

Recommendation

Assets should be utilized to the maximum.

3.4 Delays in project execution

Audit Observation

In the year under review, Rs. 535,806 had been paid for 2 projects that were to be started under the allocation of Rs.1,000,000, but the work had not started.

Comments of the Sabha

That it is expected to be implemented after the approval of the Local Government Commissioner and the Governor.

Recommendation

Estimated projects should be completed within the stipulated time frame.

4 Accountability and good governance

Budgetary Control

Audit Observation

In the reviewed year, 18 to 69 percent variation between the estimated and actual income of 04 revenue subjects and more than 30 percent variation between the estimated provision and the actual expenditure of 21 expenditure subjects was observed, so it was observed that the budget was not used as an effective management control tool.

Comments of the Sabha

Under the National Budget Circular No. 03/2022 issued by the Ministry of Finance on 26 April 2022, the planned industries and programs could not be implemented due to the need to control public expenditure.

Recommendation

Budgeting should be used as an effective management control tool.