

## **Kanthale Pradeshiya Sabha - 2022**

---

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kanthale Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of Balance sheet as at 31 December 2022, Income and Expenditure Account, 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 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 financial statements give a true and fair view of the financial position of the Kanthale 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**

I expressed qualified opinion 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 Relevant 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 scepticism 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 Relevant 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 Relevant 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**

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is 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) Retention deposit balances totaling Rs.675,438 were not shown in the financial statements.	The balance has been omitted from the accounts by mistake. That it will be corrected when the accounts are prepared in the future.	Accounts should be prepared correctly.
(b) General store stocks of Rs.4,002,641 and Ayurvedic stocks of Rs.405,457 as on 31st December of the year under review were not accounted for.	Action will be taken to avoid such defects in the future, and this mistake will be corrected when the accounts are prepared next year.	- Do -
(c) In accounting the income receivable for the year by the journal entries, the income of the year was understated by Rs.9,020,931 due to its being credited to the Accumulated Fund as income of the previous year.	That this error will be rectified by journal entries in the future when the accounts are prepared, and care will be given to avoid such errors in the future.	- Do -
(d) During the year under review, the billings of rates and taxes amounting to Rs.2,217,525 were credited to the accumulated fund instead of being credited to the revenue account.	The said balance has been adjusted to the Accumulated Fund by mistake but care will be given to avoid such shortcomings in the future.	- Do -
(e) While adjusting the opening balance through journal entries, the cash balance of Rs.7,054,592 and the creditor balance of Rs.7,157,988 were not taken into accounts.	It will be corrected when the accounts are prepared in the future.	- Do -
(f) No provision was made for audit fees for the year under review and audit fees of Rs.416,770 payable from the year 2008 to the year 2021 were not accounted for.	Due to an omission it has not been possible to allocate provision for audit fees. That will be corrected when the accounts are prepared in future.	- Do -
(g) For the month of December of the year under review, the salary reimbursement amounting to Rs.2,901,112 and Rs.375,000 of Council members' provision were not accounted for.	The correct value will be calculated and corrected in the future.	- Do -
(h) Fixed deposits amounting to Rs.2,000,000 had been accounted for as income in the year under review.	Actions are taken to correct the overstated interest income through journal entries.	- Do -

- (i) Goods received as donations amounting to a total of Rs.507,330 have not been taken into fixed assets. The donations worth Rs.507,330 - Do - which were not taken into fixed assets, were not accounted for by mistake, and steps will be taken to correct them during the preparation of accounts in the next year.

### 1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
07 account balances amounting to Rs.322,528,464 as on 31st December of the year under review could not be satisfactorily verified during the audit due to non-submission of deeds, asset transfer documents, schedules and time analysis.	The relevant errors are rectified.	Accurate information related to account subjects should be submitted.

### 1.6.3 Unreconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.432,548 between the sum of 03 account balances and the sum of corresponding documents as on 31st December of the year under review.	The accounts will be prepared correctly in the coming year.	Records should be maintained properly.

## 1.7 Non- Compliances

### Non-compliance with Laws, Rules, Regulations and Management Decisions etc...

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
(i) Section 24	Sabha owned roads were not identified and gazetted and there was no road inventory.	The necessary arrangements will be made to fix the deficiencies in the existing road inventory in the office and to gazette the roads owned by the Sabha which were not included.	All existing roads should be inventoried and gazetted.

(ii)	Section 134	Although the developed areas within the area of authority were to be identified from time to time and assessment tax should be levied; assessment tax has been levied only for the identified areas before the year 1980.	The necessary measures will be taken in the future.	Provisions of the Act should be followed.
(b)	Section 16(2) of the National Audit Act No. 19 of 2018	The performance reports to be submitted with the accounts had not been submitted by the Accounting officer.	The performance reports will be submitted in the future.	It should be complied with the National Audit Act No. 19 of 2018.
(c)	Pradeshiya Sabha (Finance and Administration) Rules			
(i)	Rule 371 (2) (b).	The sup imprests of Rs.180,000 given by the Sabha on 04 occasions were settled with a delay between 38 and 274 days.	According to the instructions of the chairman, the secretary has arranged to provide the relevant advance amount and It will make sure that such an activity does not happen in the future.	Financial regulations should be followed.
(ii)	Rule 880	Arrangements were not made to obtain security as required, from 20 officers should have been kept security deposit.	That several officers have deposited security and it will be collected from other officers.	- Do -
(iii)	Rule 1645(b) and 1646	The daily running charts of 20 vehicles owned by the Sabha were not submitted to the Auditor General.	That daily running charts summaries on 23.07.2023 will be submitted to the Auditor General for the relevant period.	- Do -
(d)	Eastern Province Stamp Duty Reversal Ordinance No. 06 of 2010.	There was an unclaimed stamp duty of Rs.1,783,680 for the period from 2018 to 2021.	The information has been requested from the Registrar's office, and once the details are received, stamp duty will be collected.	It should be complied with the charter

## 2. Financial Review

### 2.1 Financial Result

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.51,602,610 as against excess of recurrent expenditure over revenue amounted to Rs. 7,741,850 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	4,647	3,367	2,352	12,674	2,220	2,220	548	11,659
Rent	12,625	6,931	5,173	4,739	9,600	6,788	6,207	2,981
Other revenue	1,900	4,900	4,900	5,946	11,500	25,196	19,458	5,946
	19,172	15,198	12,425	23,359	23,320	34,204	26,213	20,586

#### 2.2.2 Performance in Revenue Collection

##### Audit Observation

##### Comments of the Sabha

##### Recommendation

##### (a) Rates

As on December 31, 2022, there was Rs.12,673,815 arrears of assessment tax, out of which in 18 cases the balance of tax due was more than Rs.50,000 amounting to Rs.1,097,105.

That the outstanding balances will be collected properly from next year.

Actions should be taken to recover arrears of assessment as per the provisions of the Act.

##### (b) Shop rent

Out of the 66 public market stalls 18 stalls were not used for any purpose and the Sabha had lost the rent money that should have been collected from those 18 stalls.

In the tendering of stalls, the Sabha has taken a decision to lease this stall in the year 2023 for an amount of Rs.1600.00, and till now no one has applied for it.

Closed shops should be properly leased out.

### 3. Operational Review

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

#### 3.1 Performance

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Under Section 126 of the Pradeshiya Sabha Act, by-laws should have been enacted to fulfill 28 main matters, but by December 31, 2022, by-laws had only been enacted for 05 matters.	No answers have been provided.	By-laws should be formally enacted.

#### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The goods to be distributed to the beneficiaries from the Sabha fund were not issued directly to the beneficiary but were issued to the member representing the division. There was nothing in the Sabha's files to confirm whether these items were properly received by the respective parties. There was no confirmation that goods worth Rs.398,790 were distributed in 04 cases.	That the relevant parties have submitted letters to this office stating that they have obtained the materials from the Member in-charge of Division.	Tasks should be performed in accordance with the Act and dealt with in a transparent manner.
(b) It was observed that 02 office tables and 02 chairs worth Rs.97,933, which were issued to a community-based organization as per the written request of the Vice-President, were kept at the Vice-President's residence during the field inspection conducted by the audit.	According to the request made by the societies of the respective division to the Vice President, a ceremony will be organized and distributed.	- Do -

#### 3.3 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) There were 22 vacancies in 11 posts considering the approved staff and the actual number of employees in the Sabha.	The Commissioner of Local Government has been informed about the number of vacant posts via the Assistant Commissioner of Local Government.	Vacancies should be filled.

- |     |  |  |   |
|-----|--|--|---|
| (b) | As shown in the previous year's audit, Rs.1,317,414 employees' loan due from 05 employees who left and were dismissed from the service of the Sabha had not been recovered according to section 04 of Chapter XXIV of the Code of establishment. | Legal advice will be sought regarding the recovery of outstanding loans. | It should be complied with Financial regulations and Circulars. |
| (c) | The Sabha had not prepared a human resource plan based on the Annexure 02 form mentioned in the Public Administration Circular No. 02/2018 dated January 24, 2018 and had not acted accordingly.   | The preparation of human resources plan has already started.             | - Do -  |

### 3.4 Management of Vehicle fleet

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Fuel expenditure of Rs.842,060 had been incurred during the year under review for providing the Gully Bowser services and only Rs.188,900 had been earned as revenue.	At present, the Gully Bowser is being rented out under good internal control and due to the current high fuel cost, it has been decided to provide Gully Bowser on rental basis for the fee of Rs.9000.00 per time from this year onward.	Vehicle control should be regularized.
(b) For the repair of the JCB machine given to the council by the District Secretariat, the Local Government Strengthening Program (Capital) had provided an allocation of Rs.1,903,500 and the final bills were to be submitted before December 15, 2021. But even on December 31, 2022, the machine had not been repaired and the repairman had removed the engine of the JCB machine.	As the Assistant Commissioner of Local Government has started an initial investigation regarding the repair work of the JCB machine bearing RS-1461, further work will be done based on the results of the investigation.	- Do -
(c) When the machine was not repaired, the Assistant Management Engineer of Kantale Depot had prepared fake documents stating that the repair had been completed and signed and stamped it on 10 December 2021 and certified that the repair was completed. Accordingly, Rs.648,500 was paid to a repairman on 15 August 2022.	- Do -	- Do -



#### **4. Accountability and Good Governance**

##### **4.1 Presentation of Financial Statement**

###### **Audit Observation**

The accounts of each year should be submitted to the Auditor General before 31 March of the following year, but the accounts of the reviewed year were submitted on 01 June 2023.

###### **Comments of the Sabha**

As 05 officers who had to provide data to prepare the final accounts had been released on annual transfers and New officers were late in finding out the information and could not submit it on the specified date. Those delays will be avoided in the coming year.

###### **Recommendation**

Accounts should be submitted on due date as per circular.

##### **4.2 Internal Audit**

###### **Audit Observation**

Although 03 internal audit officers were appointed, It was not implemented in a formal manner and records were not maintained.

###### **Comments of the Sabha**

02 internal officers will be appointed and act according to the instructions given by the Audit Officer.

###### **Recommendation**

Internal audits should be formalized.

##### **4.3 Audit and Management Committee**

###### **Audit Observation**

According to Circular No. DNA/2019(1), 04 Audit and Management Committees were held for the year ending 31 December 2022, but a representative of the Auditor General was not invited to participate as an observer.

###### **Comments of the Sabha**

From the year 2023, the participation of the Auditor General's department officers in the Audit and Management Committee has been required.

###### **Recommendation**

Circulars should be followed.

##### **4.4 Budgetary Control**

###### **Audit Observation**

According to the budget prepared for the year under review, when comparing the estimated income and expenses with the actual income and expenses, variations were observed from 19.67 percent to 232.87 percent in 06 revenue subjects and from 60.54 percent to 99.87 percent in 05 expenditure subjects, It was observed that the budget was not used as an effective control tool.

###### **Comments of the Sabha**

No answer.

###### **Recommendation**

Budget should be prepared realistically.

#### 4.5 Sustainable Development Goals

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Even in the year under review, the Sabha did not recognize the sustainable development objectives and goals and related criteria included in the Sustainable Development Act No. 19 of 2017	The criteria related to sustainable development objectives and goals included in the Sustainable Development Act No. 19 of 2017 have been identified in the year under review. The related reports have been attached.	Sustainable development goals, objectives and relevant criteria should be achieved.