

Kinniya Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kinniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of 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 Kinniya 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.

1.1 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 appropriate to provide a basis for my qualified opinion.

1.2 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.

1.3 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 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

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 the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) During the year under review, the total amount of Rs.927,205 items received as donations from the Local Government Department and purchased by the Pradeshiya Sabha was not capitalized.	It will be included in the preparation of the financial statements of the year 2023.	The relevant assets should be included in fixed assets.
(b) The amount of Rs.1,102,528 payable as on December 31 of the year under review, including the value of Rs.401,856 payable for unmetered street lamps was not accounted for.	No answers	Financial statements should be prepared accurately.
(c) No provision has been made for the audit fees of the year under review and for the audit fees of Rs.60,600 payable for the previous year.	The provision will be made and paid for audit fees in the year under review.	- Do -
(d) The cost of the CCTV camera of Rs.199,500 purchased last year was not capitalized.	During the Corona epidemic, the CCTV camera purchased by our Sabha was given to Kinnia Naduththivu Ayurveda Hospital, but action will be taken to get it back.	- Do -
(e) Wages and members' allowances reimbursed Rs.1,948,935 for the month of December 2021 by the Department of Local Government had accounted as income for the year under review.	Cannot be shown as income in the year under review. Because the above amount is reimbursed in the month of January and cannot be stated as such.	It should be accounted under accrual basis.
(f) Rs.1,796,907 received from the Assistant Local Government Commissioner for the Provincial Specific Development Grant (PSDG) projects completed in the year 2021 was accounted as income in the year under review.	It will be shown in the financial statements as income receivable.	It should be accounted correctly.

1.6.2 Documentary Evidences not made available for Audit

Non-submitted Audit evidence	Comments of the Sabha	Recommendation
As on December 31 of the year under review, 04 account balances worth Rs.29,879,572 could not be satisfactorily verified during the audit due to non-submission of detailed schedules and board of survey reports.	No answers have been provided.	Proper books should be maintained in respect of assets.

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) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 371	Advances of Rs.380,484 which exceeded 08 years had not been dealt with.	With the approval of the relevant departments, it will be written off.	Advances should be settled.
(ii) F.R. 571	Lapsed deposits amounting to Rs.563,003 were not settled.	As per the financial regulations, a committee has been appointed and evaluated, and arrangements are being made to repay the accounts that are over 02 years.	Financial regulations should be followed.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.4,257,574 as compared with excess of recurrent expenditure over revenue amounted to Rs.4,583,208 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 relating to 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	50	-	-	-	50	-	--	-
Rent	8,475	-	3,034	-	9,175	-	293	-
License Fees	1,740	-	1,140	-	1,595	-	5,722	-
Other revenue	<u>24,357</u>	-	<u>11,255</u>	<u>7,382</u>	<u>18,680</u>	-	<u>36,520</u>	<u>7,382</u>
Total	<u>34,622</u>	--	<u>15,429</u>	<u>7,382</u>	<u>29,500</u>	--	<u>42,535</u>	<u>7,382</u>

N.B. The income billed in the year under review and in the previous year were not submitted.

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
The assessment was not valued in terms of Section 20 of the Rating and Valuation Ordinance No. 30 of 1946.	That requests have been made from the Valuation Department for valuation of the property.	Assessment should be expedited.
(b) Rent		
The amount to be collected from lessee for the period from 2007 to 2021 was Rs.7,382,901.	Difficulties in determining this have arisen due to non-availability of details relating to this leasehold value. Therefore, the Sabha has decided to study this properly and write off this.	Relevant action should be taken regarding arrears.
(c) Court Fines and Stamp duties		
(i) As on December 31 of the year under review, the stamp duty to be collected from the Chief Secretary of the Provincial Council and other authorities was Rs.5,935,798.	Action has now been taken to recover the stamp duty.	Relevant action should be taken.

- (ii) Due to failure to collect Rs. 2,495,500 in stamp duty due upon request belonging to the period 2016 to 2019 of Kinnia Pradeshiya Sabha, That amount was credited to the provincial council fund.
- Necessary steps are being taken to obtain stamp duty from the Eastern Province Inland Revenue Department by the Deputy Chief (Finance).
- It should be complied with Pradeshiya Sabha Finance and Administration Rules 81

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
03 machines totaling Rs. 2,150,000, which were purchased under the Local Government Development subsidies Project (LDSP) On 21st March 2022 for turning solid waste into fertilizer, had not been installed till now and it was also observed that proper maintenance had not been done.	At present, actions have been taken to enter into agreements with International Kinniya Mamu Pvt (Ltd) regarding these machines and sent for the approval of the Assistant Local Government Commissioner. That as soon as approval is received for that, further action will be taken regarding the relevant machines.	Machines should be used effectively.

3.2 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
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(a) Idle assets

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| (i) The Upparu public toilet, which was built at a cost of Rs.199,762 in the year 2016 from the Sabha fund, remained idle for 08 years due to non-provision of water facilities. | At present, NGOs have provided water facilities from tube wells, making it available for use by the public. | Relevant action should be taken. |
| (ii) The building, constructed with Rs.897,155 from the Provincial Specific Development Grant (PSDG) project in 2016, remained idle for 08 years without use. | Further steps have been taken to acquire the relevant building. | - Do - |
| (iii) On December 29, 2022, the coir production machine purchased from the Provincial Specific Development Grant (PSDG) project costing Rs.410,000 remained idle without being used. | It has been sent for the approval of the Assistant Commissioner of Local Government regarding the use of coir production machine. Further action will be taken after approval. | - Do - |

(b) Not transfer to the ownership Assets

Actions were not taken to transfer 09 vehicles used by the Sabha to the name of the Sabha.	Steps have been taken to transfer ownership of the vehicles used by the Sabha, to the name of the Sabha.	Relevant action should be taken to transfer ownership.
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3.3 Delay in fulfillment of works

Audit Observation

Comments of the Sabha

Recommendation

Under the solid waste management project, the solid waste collection center was constructed at a cost of Rs. 27,272,144 in the period from 2011 to 2017, but its operations had not started by the end of the year under review.	No answers have been provided.	Relevant actions should be taken.
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4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

Comments of the Sabha

Recommendation

During the year under review, the Sabha had appointed an Internal Audit Officer, but no audit work had been carried out.	The internal audit functions are currently carried out by the Internal Audit Officer of the Sabha.	Steps should be taken to formalize internal audit functions.
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4.2 Budgetary Control

Audit Observation

Comments of the Sabha

Recommendation

The budget was not used as an effective management control tool as variances between the estimated expenditure and actual expenditure of Sabha ranged from 10 per cent to 54 per cent.	In the future, it will be done correctly.	Budgeting should be used as a control tool.
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