

Karandeniya Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karandeniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations, statement of changes in net assets, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy information 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 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 Karandeniya Pradeshiya Sabha as at 31 December 2023, 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

Audit Observation	Comment of the Sabha	Recommendation
(a) The fixed deposit interest receivable was understated by Rs.1,112,907 and the work creditors payable was overstated by Rs.219,778.	Will be corrected in future.	Should be be accounted properly.
(b) Fixed assets of capitalizable value at Rs.74,500 had not been capitalized, and spare parts of non-capitalizable value at Rs.51,890 had been capitalized.	Will be corrected in future.	- do -
(c) Creditor provision had not been made for the balance of Rs.12,702,185 payable to the Local Government Service Pension Contribution.	Will be corrected in future.	- do -

1.6.2 Lack of Documentary evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to non-submission of necessary information for the confirmation of 04 accounting items aggregating to Rs.13,135,635 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

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

Reference to Laws, Rules, Regulation and Management Decisions	Non compliance	Comment of the Sabha	Recommendation
Financial Regulations 388 and 389 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka	26 checks with a value of Rs.1,498,152 were issued and the details of the receiving parties were not registered.	Will be corrected in future	Action should be taken according to the Financial Regulations.

1.7.2 Unauthorized Transactions

Audit Observation	Comment of the Sabha	Recommendation
The secretary had used the Sabha's vehicle to travel between home and office daily without group transport facilities, and had paid Rs.800,139 for fuel.	The action has been taken according to the letter of the Commissioner of Local Government.	Action should be taken according to the circular.

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 2023 amounted to Rs.2,020,062 as compared with the excess of revenue over recurrent expenditure amounting to Rs.56,352,864 in the preceding year.

2.2 Revenue Administration

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

Source of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	4,168,798	4,741,920	5,108,424	5,620,998	3,578,798	2,955,934	3,219,079	5,987,502
rent	8,910,350	6,659,850	9,887,267	4,306,404	7,893,230	6,481,989	7,548,540	7,533,821
License Fees	450,100	422,597	398,597	149,350	400,100	172,935	172,935	125,350
Other revenue	11,883,000	8,463,326	8,460,326	48,192	8,376,600	7,868,597	7,868,597	45,192
	<u>25,412,248</u>	<u>20,287,693</u>	<u>23,854,614</u>	<u>10,124,944</u>	<u>20,248,728</u>	<u>17,479,455</u>	<u>18,809,151</u>	<u>13,691,865</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Sabha	Recommendation
(a) The total revenue receivable at the beginning of the year under review was Rs.13,691,865 and the deficit at the end of the year under review was Rs.10,124,944. There were 1127 units that did not pay any assessment tax for the year 2023, and the outstanding assessment balance due from those units was Rs.3,817,535	The arrears will be recovered.	Progress in collection of deficit revenue should be developed.
(b) There were 40 Grama Niladhari division within the jurisdiction of the Pradeshiya Sabha, out of these 37 Grama Niladhari divisions, the Sabha had not identified developed areas and levied assessment tax in accordance with Section 134 of the Pradeshiya Sabha Act.	The proceeds will be taken to collect after receiving the assessment report.	Developed areas should be identified and taxed.
(c) The assessment tax was assessed in the year 2008, and by not conducting a new assessment, there was a loss of income that could be earned by the Sabha.	The proceeds will be taken to collect immediately upon receipt of the assessment report	Present values should be assessed and income should be charged.

(d)	The Sabha had lost a rental income of Rs. 83,700 due to non-leasing of shop room No. 17 at the Mahaedanda fairgrounds since July 2018.	Action will be taken to tender.	Shops should be tendered and taxed.
(e)	From 02 shops owned by the Sabha, an amount of Rs.295,368 was outstanding since before the year 2013, and the contracts of 122 shops had not been updated.	Will be recovered in the future.	Arrangements should be made to recover long, outstanding balances.
(f)	In the year 2015, the shops were assessed and due to non-payment of assessment revisions in 198 shops, the Sabha had lost the rental income due.	The valuation revisions have been referred to the valuation department.	Estimate the present value of the shop, and Revenue should be charged.
(g)	A fee of Rs.1,114,950 was not collected during the year under review from 158 hoardings that were installed and displayed.	The action will be taken to charge in future.	Action should be taken to recovered the Arrears of income
(h)	The court fine that should have been received from the Chief Secretary of the Provincial Council and other authorities was Rs.325,000 and stamp fees was Rs.9,332,054.	The stamp fees, Rs.2,238,138 is receivable.	Arrangements should be made to recover the arrears of income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

The Sabha had not taken legal action for 04 unauthorized constructions built in the jurisdiction or to give cover approval by charging a fee of Rs.2,580,000 in relation to the buildings that can be given cover approval.

Comment of the Sabha

The further action will be taken.

Recommendation

Action should be taken according to the circular.

3.2 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
The Sabha had not taken action to collect the outstanding water charges of Rs.1,148,760 from the water consumers of the Uragasmanhandiya water project, and 139 water meters of this project remained inactive.	The 50% of the outstanding bills can be recovered and that action will be taken to re-install the inactive water meters.	The water meters should be made functional and the revenue arrears should be recovered.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
The half-completed building built in the year 2001, located at Karundugaha Hathama had been exposed to the environment for more than 20 years, so the slab was exposed to moisture and there was a risk of weakening the concrete, and this half-completed building remained idle for more than 20 years.	Will Take advice from the Chief Engineer and proceeding further.	Arrangements should be made to utilize the assets of the Sabha.

3.4 Human Resources Management

Audit Observation	Comment of the Sabha	Recommendation
The Sabha had not taken action to recover employee loans of Rs.166,140, which have existed for a period between 09 and 35 years.	Will be recovered.	The action should be taken to recover outstanding balances.