

## **Kotikawatta Mulleriyawa Pradeshiya Sabha – 2023**

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### **1. Financial statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kotikawatta Mulleriyawa Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the comprehensive income statement, cash flow statement, statement of changes in equity, 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 the 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, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Kotikawatta Mulleriyawa Pradeshiya Sabha as at 31 December 2023 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 1.6 of this report in respect of the financial statements.

My opinion is qualified 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 the 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

Those charged with governance are responsible for overseeing the financial reporting process of the Pradeshiya Sabha. 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 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 misstatements, 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) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year.
- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018.

### 1.6.1 Audit Observations regarding the preparation of Financial Statements

#### 1.6.1 Non-compliance with the Sri Lanka Public Sector Accounting Standard for Local Authorities

Audit Observation	Comments of the Council	Recommendation
(a) Although acquisitions and disposals of long-term assets and other investments should be included under investment activities according to standard No.3.29, purchases of property, plant and equipment understated by Rs.21,745,156, investments overstated by Rs.9,073,419 and interest income understated by Rs.11,394,314 had been reconciled in the cash flow statement.	Necessary actions are taken to correct in the account of 2024.	Actions should be taken to make required corrections.
(b) Although loan repayments under financing activities should be shown as Rs.8,163,272 according to the standard No. 3.30, due to adjustments made as a borrowing of Rs.2,445,792, it had been indicated the cash outflows was understated by Rs.8,163,272 and the cash inflows was overstated by Rs. 2,445,792 and the bank balance had been overstated by Rs.56,934,729.	Necessary actions are taken to correct in the account of 2024.	Actions should be taken to make required corrections.

## 1.6.2 Accounting inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In the year under review, building depreciation had been undercalculated by Rs.144,421	Accepted.	Actions should be taken to prepare accounts correctly.
(b) A sum of 29,244 of the cost of auctioned stock of dilapidated articles which included the stock of the year under review had been adjusted to the accumulated Fund instead of being written off as an expense of the year.	As it was a purchase of previous years and adjusted to the accumulation in this way,	- Do -
(c) Loan interest amounting to Rs.137,310 had been debited to the miscellaneous expense account instead of being accounted as a financial expense.	Accepted.	- Do -
(d) A sum of Rs.3,613,696 of deposits exceeding 02 years had been adjusted to the accumulation instead of adjusted to the income of the year under review.	Since the deposits taken two years ago have been reconciled to the accumulated Fund.	- Do -
(e) As of 31December 2023, Rs.14,056,599 received as direct remittances, Rs.20,683 for loan instalments, fixed deposit interest of Rs.3,208,767 and other receipts of Rs.11,333 totalling Rs.17,297,382 had not been reconciled to the respective accounts.	Although the relevant value has been reconciled in the relevant accounts as it should be reconciled with the billings, it was verbally informed that it has been reconciled in the accounts of the year 2024.	- Do -
(f) A total of Rs.90,683, Rs.1,155,118, and Rs.614,468 that should be debited to the building account, the fixtures account, and the road account respectively, totalling Rs.1,860,269 had been debited to the miscellaneous expense account.	Necessary actions are taken to correct in the account of 2024.	Actions should be taken to prepare accounts correctly.

## 1.7 Non-compliances

### 1.7.2 Non-compliance with laws, rules, regulations and management decisions

Reference to rules, regulations etc.	Non-compliance	Comments of the Council	Recommendation	
(a)	According to Section 127 of the Pradeshiya Sabhas Ordinance No. 15 of 1987 and Section 3 and Section 128 of the Cemeteries and Burial Grounds Ordinance.	Actions had not been taken to determine/ the demarcations of 05 cemeteries located within the jurisdiction of the council and take over to the council and publish in the gazette.	Activities in respect of demarcating of the cemeteries owned by the council have been completed by now and requests have been made to the divisional secretary to take them over to the local council. As soon as the relevant approval is received, actions will be taken to gazette.	Prompt actions should be taken to carry out gazetting activities without delay
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	(ii) <b>F.R.</b> 104(1) (a) <b>F.R.</b> 104 (3) <b>F.R.</b> 104 (4)	Actions had not been taken to determine the causes of 42 vehicle accidents that occurred from the year 2021 to 30 June 2023, identify the responsible parties upon carrying out a preliminary investigation and recover the related damages from the responsible parties.	The total number of accidents is 17 from the year 2021 to 2023.06.30,. Accordingly, 06 accidents in 2021, 05 accidents in 2022 and 06 accidents in 2023.I kindly inform you that for all these damages, the loss has been covered by the insurance and for the accidents that occurred in the year 2021 and 2022, necessary activities have been carried out in accordance with the Financial Regulation 110 form and an initial investigation has been conducted regarding the accidents that occurred in	Actions should be taken to proceed in terms of the Financial Regulations.

the year 2023 and activities have been carried out in accordance with the Financial Regulations.

- (c) 3.1 of Public Inspection of 50 Currently, according to Actions should be  
Administration Circular vehicles owned by the Section 3.1 of public taken to proceed as  
No. 30/2016 and dated council had not been Administrative Circular No. per the circular.  
29 December 2016 carried out. 30/2016, fuel combustion  
test is done once in 06  
months.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements submitted, the income exceeding the expenditure of the council for the year ended 31 December 2023 was Rs. 73,425,256 and correspondingly, the income exceeding the expenditure of the previous year was Rs.67,206,396.

### 2.2 Financial control

#### Audit Observation

#### Comments of the Council

#### Recommendation

According to the bank statement related to the current account maintained in a state bank as on 31 December 2023, the favourable balance was Rs.63,088,827. But the council had not made necessary arrangements regarding the money in this current account to be temporarily invested in a short-term deposit and receive interest income.

The necessary arrangements have been made to invest the surplus amount from the balance as on 31 December 2023 as fixed deposits till it is invested in special projects.

If there is surplus money, actions should be taken to invest.

### 2.3 Revenue Administration

#### 2.3.1 Estimated Revenues, Billed Revenues, collected Revenues and Outstanding Revenues

Source of income	2023				2022				
	Estimate of income	Billed income	Collected revenue	Total deficit as on 31 December 2023	Estimate of income	Billed income	Collected revenue	Total deficit as on 31 December 2022	
	'000	'000	'000	'000	'000	'000	'000	'000	
(i) Assessment tax	68,757	48,736	49,212	60,684	69,331	50,221	50,087	55,201	
(ii) Rents	11,889	11,530	12,243	34,948	21,000	6,832	4,628	7,237	
(iii) License fees	1,450	600	1,149	-	1,700	1,700	1,450	250	
(iv) other income	8,511	3,567	3,567	-	23,481	23,481	25,200	-	
<b>Total</b>	<b><u>90,607</u></b>	<b><u>64,433</u></b>	<b><u>66,171</u></b>	<b><u>95,632</u></b>	<b><u>115,512</u></b>	<b><u>82,234</u></b>	<b><u>81,365</u></b>	<b><u>62,688</u></b>	

### 2.3.2 performance of Revenue collection

Audit Observation	Comments of the Council	Recommendation
(a) As on the last date of the year under review, the outstanding assessment and tax value was Rs.60,684,236 out of which the amount due from 45 assessment arrear balances with an outstanding value of more than Rs.40,000 was Rs.5,743,876. It was about 9.5 percent of the total deficit.	All the properties with outstanding balances have been identified through on-site inspections and they have been notified through letters asking them to pay the arrears.	Actions should be taken to expedite the collection of arrears of revenue, which has been due for many years.
(b) The balance due on 31 December 2023 was Rs. 26,953,872 from 99 shops out of 146 shops belonging to the main office of the council and 48 shops out of 99 shops belonging to the sub-office. The total rent received during the year was Rs.11,370,780 out of which Rs.9,411,341 was arrears of rent for previous years	The lessees refused to pay rent on revision of new rent assessment from 01.10.2019 to 31.12.2022 and thus the arrears could not be recovered.	Actions should be taken to expedite the recovery of arrears of shop rents through alternative means such as repossession of shops from shop rent defaulters.

- (c) At the beginning of the year 2023, the rental income to be received was Rs. 2,600,609 and only Rs.769,835 was collected during the year, which was 29 per cent. In the year under review, the billing was Rs.2,894,040, of which only Rs.103,135 had been recovered, which was 3.5 percent.
- The lessees refused to pay rent on revision of new rent assessment from 01.10.2019 to 31.12.2022 and thus the arrears could not be recovered.
- Actions should be taken to expedite the recovery of house rent arrears.
- (d) Court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities as on 31 December of the year under review were Rs.7,474,965 and stamp duty was Rs.97,172,883.
- I inform that the fees have been received as per the subsidiary documents provided.
- Actions should be taken to collect the stamp duty due to be received.

## 2 Operational Review

### 3.1 Performance of functions assigned by the Act.

Audit Observation	Comments of the Council	Recommendation
During the year under review, 271 complaints had been submitted to the council under each category by the residents of the council's jurisdiction, out of which 53 complaints had not been resolved.	Actions have been taken for all the complaints received by the local council for the year 2023.	Actions should be taken to solve the complaints within the relevant period.

### 3.2 Management inefficiencies

The council had acquired a Long Arm Excavator machine on rent basis for a period of 03 months to fight the fire caused by the production of methane gas on the garbage in the garbage yard. During the relevant period, although the machine ran for 620.7 hours and Rs.8,534,625 had been	The machine obtained on rental basis for a period of 03 months was used for cutting drains in the waste yard and preparing alternative routes. after the supervision and recommendation of the Technical Officer, the Work Superintendent has	Actions should be taken to carry out the proper maintenance of records and proper supervision.
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paid, the work superintendent recommended the payment had not monitored the number and made the payment of hours the machine ran during the inspection of the waste yard.

### 3.3 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
<p>In addition to the approved cadre, 61 employees who had been granted permanent appointments by Public Administration Circular No. 25/2014 and dated 12 November 2014 and 29 employees who had been granted permanent appointments by Public Administration Circular No. 29/2019 and dated 18 September 2019, totalling 87 employees had engaged in the service.</p>	<p>Answers have not been provided.</p>	<p>Arrangements should be made to fill up the vacancies and approve the excessive cadre.</p>

## 4. Accountability and good governance

### 4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
<p>Due to the fact that the expected tasks were not carried out or not needed after making funds allocations from the budget document of the year 2023, Rs. 20,411,636 in 18 recurring expenditure subjects and Rs. 1,499,100 in 02 capital expenditure subjects had been left in the total estimated allocation.</p>	<p>I would like to inform you that on the basis of National Budget Circular No. 03/2022 instructions to control public expenditure, only the essential and priority tasks have been left with provisions in recurrent and capital expenditure subjects.</p>	<p>Efforts should be made to use the budget document as a revenue control tool and efforts should be made to get maximum benefit from the provisions.</p>