

Kahawaththa Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kahawaththa Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, cash flow statement, statement of changes in equity, significant accounting policies and the summary of other explanatory 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, 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 Kahawaththa 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 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 Responsibility for the Audit of 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 the parties in charge of governance on 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 in charge of 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 Audit Scope (Auditor's Responsibility 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 exercise 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 the 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 contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 the Pradeshiya Sabha has performed according to its powers, functions and duties; and
- Whether the resources 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 Audit Observations on the Preparation of Financial Statements

Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The contracts worth Rs.2,966,000 of 05 projects of which the works had not been started within the year under review had been capitalized.	It was capitalized as the contract has been made in the year 2023.	Accounting should be done properly.
(b) The construction cost of Rs.9,730,708 of a two-storied shopping complex had not been capitalized.	The actions will be taken to rectify.	- Do -

1.7 Non-compliance

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

The instances of non-compliance with Laws, Rules, Regulations and management decisions are as given below

Audit Observation	Comments of the Council	Recommendation
02 advances worth Rs.93,175 given in the years 2011 and 2017 had not been settled as per the Financial Regulation 371 (5).	The arrangements are being made to recover from the former Chairman and former Secretary.	The proceedings should be made as per the Financial Regulations.

2. Financial Review

2.1 Financial Result

According to the financial statements submitted, the income exceeding the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2023 was Rs.14,089,616 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs.8,223,912.

2.2 Revenue Administration

2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the Secretary, the particulars about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year are given below.

Income Source	<u>2023</u>				<u>2022</u>			
	Estimated income Rs.	Billed income Rs.	Collected income Rs.	Total deficit as at 31 December Rs.	Estimated income Rs.	Billed income Rs.	Collected income Rs.	Total deficit as at 31 December Rs.
Assessments and Tax	4,720,912	5,274,126	5,187,883	1,533,354	4,431,325	4,264,740	4,125,125	1,547,410
Rentals	10,388,400	11,352,635	11,378,240	772,419	9,093,792	8,477,967	7,860,617	1,156,849
License fee	1,264,000	1,068,185	1,050,585	-	1,035,000	1,127,066	1,094,466	-
Other income	<u>3,509,000</u>	<u>2,183,410</u>	<u>2,445,052</u>	-	<u>2,617,000</u>	<u>1,891,537</u>	<u>1,464,743</u>	<u>-</u>
	<u>19,882,312</u>	<u>19,878,356</u>	<u>20,061,760</u>	<u>2,305,773</u>	<u>17,177,117</u>	<u>15,761,310</u>	<u>14,544,951</u>	<u>2,704,259</u>

2.2.2 Performance of the Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	A balance of Rs.232,226 older than 05 years was within the outstanding assessment balance worth Rs. 1,009,208.	It is expected to write off the uncollectible balances and to recover the revenue arrears.	The proceedings should be made as per the provisions of the Act.
(b)	There was a balance of Rs.69,753 older than 05 years within the outstanding acre tax balance of Rs.77,295.	Required measures are being taken to recover the outstanding balance.	Revenue arrears should be collected.
(c)	The upper floor of the public market had been leased at a monthly rental of Rs.36,000 from August 2021 without a valuation, and the security deposit had been taken with a shortage of Rs.72,000. The lessee had vacated the building in May 2023 and the outstanding rental of Rs.518,000 had not been collected to date.	The letters have already been submitted to the lawyer to move with legal proceedings for the previous lessee and the actions will be taken to substitute the one month contract also for the rent arrears of a month.	Deciding the rental of the shop, entering into agreement and collecting the rental on monthly basis should be formalized.

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| (d) | Although the upper floor of the weekly fair had been leased from September 2020 without a valuation, the Pradeshiya Sabha had lost an income of Rs.450,000 as the lease term was deducted falsely. Although its monthly rent had been assessed as Rs.50,000 in July 2023, the revised rent has not been collected up to now. | The building has been given as per the decision of the General Assembly. The tipex had to be used as the prearranged agreement had to be signed at a later date. | Giving the building on rent should be done according to a formal method. An investigation should be done about the reduction of rental falsely. |
| (e) | The charges at a value of Rs.316,487 had not been collected for 58 notice boards belonged to 22 institutions. | Notice Board charges related to 04 institutions have already been collected. | Revenue arrears should be recovered. |
| (f) | The telephone transmission pillars established within the Pradeshiya Sabha Division had not been identified and the fees had not been levied. | A survey will be carried out for the year 2024 and the fees will be charged. | The revenues should be recovered with no delay. |

3. Operational Review

3.1 Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
(a) The waste disposal land area of 04 acres within Houpe Estate, Kahawatta had not been take over to the Praseshiya Sabha even by December 2023.	The land plot has been demarcated and the plans will be presented to the Estate Management by the respective Ministry.	The actions should be taken to acquire the land.
(b) About 360 metric ton of wastes had not been disposed annually in environmentally friendly manner.	The plans required to implement a formal waste management project are already being prepared.	A formal waste management project should be implemented.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The taxes had not been levied on undeveloped lands according to Gazette Notice No. 2313 dated 30 December 2022.	Survey activities will be started this year.	The tax should be levied from undeveloped lands.
(b) The legal actions had not been taken against 04 meat and fish shops running without license.	The actions have been taken to remove these unpermitted places.	The proceedings should be made as per the provisions of the by-laws.
(c) Although 13 complaints have been received about the quality of water in the Endana water project; which involves 313 water consumers, no quality inspection had been carried out on it to date.	The preliminary arrangements have been made to establish a purification unit.	The arrangements should be made to ensure the quality of drinking water.

3.3 Idle Assets

Audit Observation	Comments of the Council	Recommendation
Even if the Pradeshiya Sabha had decided in July 2022 to cultivate and develop the land of 01½ acres received by the Pradeshiya Sabha for public activities, the said land had remained idle even by December 2023.	Although it was proposed to pay the Pradeshiya Sabha a sum of Rs.4,000 out of the monthly income received from Rubber trees in the land, it could not be implemented due to varied reasons.	The actions should be taken to utilize the land effectively.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
The registers of assets related to lands, buildings and machineries worth Rs.77,248,466 had not been maintained up to date.	The actions will be taken in future to maintain it updating the particulars by a schedule containing all the details.	The asset registers should be maintained up to date.

3.5 Vehicle System Management

Audit Observation	Comments of the Council	Recommendation
(a) The ownership of a vehicle received as a donation in August 2020 had not been taken over. Also, its engine had not been repaired although it had been non-functional from the year 2022.	Since the ownership has not been transferred so far even if requested, repairing a vehicle belonging to another owner at a huge expense has been problematic.	The actions should be taken to use the vehicle effectively after taking over the ownership or handover the vehicle to the Provincial Council.
(b) The disposal activities of 02 tractors and 04 trailers which were in non-functional condition had not been completed till December 2023.	As these vehicles are in the status of being auctioned, the proceedings required for that purpose are done.	The proceedings should be made as per the Assets Management Circular No. 05/2020 dated 02 October 2020.
(c) The gully bowser received as donations in the year 2015 due to the lack of necessary facilities for the disposal of gullies, remained idle from the date of receipt.	Once the Pradeshiya Sabha receives the waste disposal land, gully disposal will be started.	The assets should be used effectively.