

Kuruwita Pradeshiya Sabha - 2023

1. Financial statement

1.1 Qualified Opinion

The audit of the financial statements of the Kuruwita 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, 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, 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 Kuruwita 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.

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.

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 a 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 Preparation of Financial Statements

1.6.1 Accounting deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Rs.3,972,698 paid for the construction of Kuruwita Conference Hall had been credited to the land and building account.	Will be corrected in preparing the financial statements for the next year.	Efforts should be made to account for accurately.
(b) The construction cost of Rs.9, 432,969 for 04 construction had been capitalized twice.	- Do -	- Do -
(c) Rs.28, 016,924 had been over-capitalized for the cost of 02 constructions.	- Do-	- Do-
(d) 03 buildings, land and timbers totaling Rs.22,671,941 had not been capitalized.	- Do -	- Do -
(e) The balance of Rs.5,292,338 in 02 bank current accounts as on 31 December 2023 was adjusted as direct cash in the bank reconciliation statement without being shown in the financial statements.	- Do -	- Do -
(f) Although the accounting policy is to account for stamp duty on cash basis, the stamp duty of Rs.9, 568,563 received in the year 2021 had not been accounted as income in the year 2023.	- Do -	- Do -
(g) Rs.3,905,484 had been accounted for more by the expenses creditors.	- Do -	- Do -
(h) Ending stock of stationery and street lamps amounting to Rs.407,590 had not been accounted for on 31 December, 2023.	- Do -	- Do -
(i) A stock of drugs value of Rs.200,000 received during the year and Ayurvedic aid receipts of Rs.103,334 in the year 2022 had been accounted as receivables.	Will be corrected in preparing the financial statements for the next year.	- Do -
(j) Outstanding room rents of Rs.496,000 had not been accounted as receivable and assessment charges advanced had been under-accounted by Rs.400,523.	- Do -	- Do -
(k) There was a difference of Rs. 21,967,998 between the balance according to the financial statements of 07 accounting subjects and the balance according to the books subsidiary.	Will be acted to correct it.	Discrepancies should be resolved.

1.6.2 Absence of written evidence for audit

Audit Observation	Comments of the Council	Recommendation
The detailed schedule and time analysis of 09 accounting subjects with a total of Rs.343, 070,438 had not been submitted.	Will be got the information and prepare the schedule and update the documents.	Transactions should be properly recorded.

1.7 Non-compliance

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

Audit Observation	Comments of the Council	Recommendation
(a) According to Financial Regulation 371 (5), advances of Rs.2, 597,900 issued in 27 cases from the year 2009 to the year 2017 had not been settled till now.	As per the recommendations given by the Inspection Board, the advance settlement is being done	The said money should be settled immediately.
(b) Contrary to Section 12.3 of Chapter XIV of the Establishments Code, the Secretary of the Council had also used government vehicles for official purposes while receiving the converted allowance.	A fixed transport allowance has not been obtained, although converted travel expenses have been obtained. Accordingly, he has used government vehicles as a staff officer.	Action should be taken in accordance with the Establishments Code .

2. Financial review

2.1 Financial results

According to the presented financial statements, the income exceeding the recurrent expenditure of the council for the year ending 31 December, 2023 was Rs.57,657,816 and correspondingly the income exceeding the recurring expenditure of the previous year was Rs.63,358,707.

2.2 Revenue Administration

2.2.1 Estimated Revenues, Billed Revenues, collected Revenues and Outstanding Revenues

According to the information presented by the Secretary, the following is the information about the estimated income, billed income, collected income and arrears related to the year under review and the previous year.

Revenue Source	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessment tax	8,039,737	9,315,237	9,186,695	10,520,615	7,428,955	8,418,956	5,930,941	11,262,318
Rents	9,620,290	9,824,503	10,004,605	1,604,925	9,096,117	9,004,731	8,184,746	1,905,021
License fees	2,311,800	3,150,854	3,150,854	-	2,204,250	2,780,474	2,780,474	-
other income	<u>3,500,000</u>	<u>9,386,486</u>	<u>6,052,682</u>	<u>2,752,573</u>	<u>11,288,780</u>	<u>17,431,240</u>	<u>14,210,857</u>	<u>236,468</u>
	<u>23,471,827</u>	<u>31,677,080</u>	<u>28,394,836</u>	<u>14,878,113</u>	<u>30,018,102</u>	<u>37,635,401</u>	<u>31,107,018</u>	<u>13,403,807</u>

2.2.2 Revenue collection performance

Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs.2,883,436 which was an old arrears for more than 05 years and a sum of Rs.729,261 for arrears of acre tax for more than 03 years were to be collected.	Action will be taken the arrears in the future.	Arrears of revenue should be collected.
(b) No survey had been done on the institutions that have to charge industrial tax, business tax and trade license fees.	Survey work is being done for the year 2024.	Revenue should be collected.
(c) A shop that did pay a lump sum of Rs.626,450, to enter into a contract and did not pay rent arrears of Rs.101,200 and a shop that did not pay a lump sum of Rs.200,000 had not taken over.	Arrangements have been made to re-tender the shop room that has not been contracted. After receiving the relevant report, will be acted accordingly.	The arrears should be collected and the shop should be taken over.
(d) Although all the maintenance and administrative work of a Kiriella pre-school is carried out by the council fund, the teachers of the pre-school had taken the monthly fees of Rs.44,800 charged from the children without crediting the council fund.	Unpaid wardens are paid by parents. No money will be collected from parents from August 2023.	Actions should be taken according to the instructions of the Commissioner of Local Government.

3. Operational review

3.1 Operational inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The request of the lessee to release the rent paid from April 2021 to October 2022 of Rs.813,960 has not been approved from the Governor until now because the Namaldeniya Tourist Resort was not opened due to the epidemic situation. Subsequently, the resort had been leased to the lessee for one year from April 2022 outside the procurement process.	Information has been called for whether the resort was not actually opened during that period.	Revenue should be collected. Deduction of income should be done only on formal approvals.
(b) A survey on display billboards was not conducted in 2023.	No such survey has been conducted.	Revenue should be collected.
(c) Adequate measures had not been taken for the protection of 609 perches of land. The trespassers had arranged to cultivate on one of the lands and run a pre-school on another.	Observation is accepted.. Will be looked into the matter and take the needful action in the future.	Assets should be protected.

3.2 Deficiencies in contract administration

Audit Observation	Comments of the Council	Recommendation
(a) Rs.3,188,688 was overpaid in the construction of the conference hall, which was a shopping complex, Although it was completed in the year 2022 at a cost of Rs.34,793,520, it remained idle by December 2023 due to incomplete basic requirements.	Enough answers had not been given.	Overpayments should be recovered and assets should not be left unused.
(b) Although Rs.1,912,932 had been paid for the repair of 33 roads, according to the sample inspection, the work on 07 roads had not been done. Also, Rs.299,974 had been paid extra for 03 other constructions including those roads.	Rs.402,414 has been recovered from overpayments and the rest will be recovered.	Additional payments should be recovered.
(c) The correctness of Rs.759,560 paid for stone transportation in the repairs of 33 roads could not be confirmed.	Due to the Corona epidemic, stones had to be transported from very far away.	Transportation distance and bills should be available.

3.3 Vehicle Utilization

Audit Observation

Gully Bowser had been repaired in the year 2022 after paying Rs.784,110, but by May 2023 it was still idle.

Comments of the Council

Gully service has not been possible to implement as there is no place to dump the gully. It has been used to transport water.

Recommendation

Assets should be utilized effectively.