

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Kebithigollewa Pradeshiya Sabha for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, Comprehensive Income Statement, Statement of changes in net assets/ equity, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Kebithigollewa Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

**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 Sri Lanka Public Sector Accounting Standard for Local Authorities, 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- 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.
- The financial statements presented includes all recommendations made by me in the previous year except the audit matter described in paragraph 1.6.3 (b) of this report as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

| Audit Observation   | Comments of the Council | Recommendation  |
|---|-------------------------|---|
| (a) In the year under review, Rs.683,500 received for the purchase of equipment by the front office had been accounted for as recurring grants.   | Accepted.               | Purchase of capital equipment should be mentioned as capital grants.              |
| (b) In the year under review, the expenditure of Rs.125,700 from the council fund for the purchase of a motor for the Tikiri Handadewa water project had been accounted as a recurring expenditure and the project extension expenditure of Rs.831,045 had not been accounted as assets and capital grants. | - Do -                  | Purchase of capital assets should be recognized as property, plant and equipment. |
| (c) In the year under review, the shop rental income had been understated by Rs.101,333.  | - Do -                  | The correct value should be accounted.  |

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|--|--------|--------|
| (d) In the year under review, the value of the project under the project grants of the local council had been overstated by Rs.5,583,877.  | - Do - | - Do - |
| (e) According to the cash book balance of Local Development Support Project (LDSP) as at 31 December 2022 was Rs.8,489,989 but in the statement of assets and liabilities it had been shown as Rs.5,341,080 which is less than Rs.3,148,909. | - Do - | - Do - |

### 1.6.2 Unreconciled Control Accounts or Records

| Audit Observation   | Comments of the Council | Recommendation   |
|---|-------------------------|--|
| (a) Regarding 07 accounting subjects, the value mentioned in the statement of assets and liabilities on 31 December 2022 was Rs.105,987,895 and according to the related notes, the value was Rs.96,594,319 which was a difference of Rs.9,393,578. | Accepted.               | Schedules should be compared with corresponding records. |
| (b) Regarding 03 accounting subjects, the cash flow from operating activities on 31 December 2022 was Rs.20,161,530 but as it was mentioned as Rs.28,121,422 in the cash flow statement, there was a difference of Rs.7,959,892.                    | - Do -                  | - Do -   |
| (c) For the year ended 31 December 2022 there was a difference of Rs.12,902,091 between the balances stated in the Statement of Changes in Net Assets/ Equity and the balances stated in the Check Balance.   | - Do -                  | - Do -   |
| (d) As per Note No. 10 of the Comprehensive Income Statement of the year under review, unrecognized capital   | - Do -                  | - Do -   |

grants in surplus (deficit) as at 01 January 2022, was Rs.52,536,070 but as per the statement of change in net assets/ Equity, it was mentioned as Rs.50,591,759 which was a difference of Rs.1,944,311.

**1.6.3 Documentary Evidences not made available for Audit**

| Audit Observation   | Comments of the Council | Recommendation                    |
|---|-------------------------|-----------------------------------|
| (a) Due to lack of sufficient evidence related to 04 subjects of income and assets worth Rs.28,230,286 it was not possible to satisfactorily monitor and verify them during the audit.                        | Accepted.               | Confirmation should be submitted. |
| (b) Proving evidence had not submitted regarding the error adjusted balances of Rs.17,687,415 and Rs.18,981,173 in the prior period in the statement of changes in net assets/ Equity as at 31 December 2022. | - Do -                  | - Do -                            |

**1.7 Non- Compliances**

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

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions are shown below.

| Reference to Laws, Rules Regulations etc.  | Non-compliance  | Comments of the Council | Recommendation                                       |
|--|---|-------------------------|--|
| No 1645 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka | Vehicle running charts and monthly summaries of each month should be submitted to the Auditor General before the 15th of the following month, but the running charts related to the year 2022 had not been submitted for audit. | Accepted.               | Actions should be made as per financial regulations. |

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess revenue over expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.1,444,662 as against the excess revenue over expenditure amounted to Rs.8,156,102 in the preceding year.

### 2.2 Revenue Administration

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

Information 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<br>Rs. | Revenue billed<br>Rs. | Revenue Collected<br>Rs. | Arrears as at 31 December<br>Rs. | Estimated Revenue<br>Rs. | Revenue billed<br>Rs. | Revenue Collected<br>Rs. | Arrears as at 31 December<br>Rs. |
| (i)   | Rates and Taxes   | 1,136,400                | 1,054,950             | 1,054,950                | -                                | 1,089,400                | 912,900               | 912,900                  | -                                |
| (ii)  | Rent              | 12,599,100               | 10,753,122            | 10,691,032               | 5,929,861                        | 8,516,450                | 6,912,515             | 3,668,024                | 5,867,771                        |
| (iii) | License Fees      | 2,410,603                | 1,241,216             | 832,819                  | 593,380                          | 2,337,902                | 1,545,341             | 1,455,178                | 184,983                          |
| (iv)  | Other Revenue     | 3,236,970                | 4,318,157             | 3,442,770                | 5,222,225                        | 2,812,010                | 1,869,040             | 409,928                  | 4,346,838                        |
|       |                   | 19,383,073               | 17,367,445            | 16,021,571               | 11,745,466                       | 14,755,762               | 11,239,796            | 6,446,030                | 10,399,592                       |

#### 2.2.2 Performance in Revenue Collection

Following are the observations regarding the revenue collection performance of the sabha.

| Audit Observation  | Comments of the Council | Recommendation                   |
|--|-------------------------|----------------------------------|
| <b>(a) Rates and Taxes</b><br><br>According to Section 134 (i) of the Pradeshiya Sabha Act No. 15 of 1987, rates and taxes should be levied on the basis of the annual value of an immovable property or a type of immovable property located in the developed areas of the council area, but new areas had not been identified and levied as per the instructions of the Act. | Accepted.               | Should act according to the Act. |

**(b) Rent**

- |  |           |                                     |
|--|-----------|-------------------------------------|
| (i) The rent arrears were Rs.734,723 dues from 02 to 03 years for the rental of J.C.B machine and coal rollers           | Accepted. | Actions should be taken to recover. |
| (ii) Arrears of Rs.1,538,018 had not been collected for the shops owned by the council.                                  | - Do -    | - Do -                              |
| (iii) The arrears of rent were Rs.2,940,809 due from 01 to 08 years from 15 commercial premises rent out by the council. | - Do -    | - Do -                              |

**(c) License Fee**

- |   |        |        |
|---|--------|--------|
| (i) The outstanding three-wheeler parking fees of Rs.98,400 from 76 persons were as at 31 December of the year under review.                      | - Do - | - Do - |
| (ii) The outstanding water bills and outstanding connection fees were Rs.200,480 related to the Yakawewa water project maintained by the council. | - Do - | - Do - |

**(d) Other Revenue**

|   |                                  |                                     |
|---|----------------------------------|-------------------------------------|
| Court fines of Rs.1,041,340 and stamp duty of Rs.4,180,833 which should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December of the year under review, had not been received. | Action will be taken to recover. | Actions should be taken to recover. |
|---|----------------------------------|-------------------------------------|

**3. Operational Review**

**3.1 Performance of functions assigned by the Act**

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort,

convenience and welfare of the people and amenities by the Section 3 of the Pradeshiya Sabha Act are shown below.

### 3.1.1 Conducting slaughterhouses

| Audit Observation  | Comments of the Council                   | Recommendation  |
|--|---|---|
| (a) Annual renting were made for 02 beef shops in Muslim Ataweeragollewa and Allawewa areas, but the slaughterhouse facilities for those shops had not been provided by the council.   | Approval has been obtained.               | Slaughterhouse should be operated in accordance with the Ordinance. |
| (b) Although the Sabha should charge a fee of not more than Rs.10 for 01 kg of meat inspected in the Area, there was no action to charge fees for meat inspection and use of the Sabha logo, in terms of Section 09 of By-laws 32 of the General Standard By-laws Gazette Notification dated 23 August 1988. | Action will be taken to charge in future. | Action should be taken to charge.                                   |

### 3.2 Assets Management

| Audit Observation  | Comments of the Council                               | Recommendation  |
|--|---|---|
| (a) 05 vehicles that had been received to the Sabha had been parked idle for between 01 and 05 years without being used. | Accepted.   | Should be repaired and processed for use or disposal. |
| (b) 02 vehicles that could be repaired and used had been remained idle for more than 05 years without repair.            | Action will be taken to repair and use in the future. | Actions should be taken to use.                       |

### 4. Accountability and Good Governance Environmental Observations

| Audit Observation  | Comments of the Council                                      | Recommendation                                |
|--|--|---|
| The land where the Kirikotuwewa slaughterhouse was located had been reserved for the management of non-perishable waste and for the production of organic fertilizers, but the land had been remained idle and the slaughterhouse also had been remained idle without use. | Currently, actions have been made to correct this situation. | Necessary action should be taken immediately. |



