

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rambewa 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 equity / net assets, 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 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 financial statements give a true and fair view of the financial position of the Rambewa 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

I expressed qualified opinion 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 standard 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 Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) 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.

- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although the machines amounting to Rs.943,000 owned by the council should be depreciated at the rate of 05 per cent annually, the depreciation of the machines had overstated by Rs.141,450 due to the depreciation was calculated at the rate of 20 per cent in the reviewed year.	Accept.	Assets should be correctly identified.
(b) Roads constructed in the year under review, was overstated by Rs.798,478.	- Do -	The correct value should be accounted for.
(c) A sum of Rs.19,236,991 in respect of 15 projects which have been contracted from the years prior to the year under review but have not been implemented so far were shown in the statement of assets and liabilities as creditors.	Actions have been taken to remove it from the creditor's register.	Unimplemented projects should not be recognized as creditors.
(d) A sum of Rs.19,236,991 in respect of 15 projects which have been contracted from the years prior to the year under review but have not been implemented so far were shown in the statement of assets and liabilities as creditors.	Actions have been taken to remove it from the creditor's register.	Unimplemented projects should not be recognized as creditors.
(e) Court fine income for the year under review was overstated by Rs.16,716.	Accept.	The correct value should be accounted for.
(f) Stamp duty income receivables for the year 2019 which was confirmed by the Provincial Revenue Department was overstated by Rs.1,115,000.	- Do -	- Do -

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) According to the road ledger account, the opening balance was Rs.28,805,041 but according to the related provision for depreciation document, the opening balance was shown as Rs.73,400 therefore a difference of Rs.28,878,441 was observed.	Accept	Schedules should be reconciled with corresponding records.
(b) According to the schedule, the purchase of Property, Plant and Equipment in the year under review was Rs.23,128,026 but according to the cash flow statement, it was shown as Rs.37,799,021 therefore a difference of Rs.14,670,994 was observed.	- Do -	- Do -

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Detailed schedules, age analysis and balance confirmation letters were not submitted to confirm 07 account subjects with a value of Rs.435,841.	Accept.	Confirmations must be submitted.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The instances 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
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571 (2)	General deposits amount of Rs. 86,465 which had been deposited and exceeded a period of 02 years, had not been taken into the state revenue.	Accept	Action should be taken as per the Financial Regulation.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.15,326,002 as compared with the excess of expenditure over revenue amounted to Rs.25,728,099 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

		2022				2021			
Source of Revenue	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.	
(i) Rates and Taxes	2,267,502	2,564,612	1,566,997	3,248,989	2,317,318	2,583,652	1,571,734	2,251,374	
(ii) Rent	11,780,000	4,877,120	4,257,224	5,299,249	10,452,375	5,747,141	3,967,749	4,679,353	
(iii) Licence Fee	1,788,620	1,464,010	1,098,880	1,101,130	1,564,820	1,437,520	1,624,700	736,000	
(iv) Other Revenue	7,540,080	2,162,575	4,996,473	637,578	30,097,128	17,172,600	22,107,575	3,471,476	
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	<u>23,376,202</u>	<u>11,068,317</u>	<u>11,919,574</u>	<u>10,286,946</u>	<u>44,431,641</u>	<u>26,940,913</u>	<u>29,271,758</u>	<u>11,138,203</u>	

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

(a)	Audit Observation	Comments of the Council	Recommendation
(a)	Rates and Taxes		
(i)	Rates and Taxes are being collected based on the assessment of the year 2013 and arrears as at as on 31 December of the year under review was Rs.1,368,046.	Necessary arrangements have been made to recover the arrears of Rates and Taxes.	Action should be taken to recover the arrears of Rates and Taxes.
(ii)	Business tax income of Rs.2,032,890 should have been collected by 31 December 2022.	An amount of Rs.150,000 has been recovered and the rest of the money is being recovered.	Action should be taken to recover the arrears.
(iii)	Outstanding industrial tax was Rs.325,300 and commercial business tax was Rs.1,728,570 as on 31 December of the year under review.	Arrangements have been made to recover in the year 2023.	Receipt confirmations should be submitted.
(b)	Rent		
(i)	A sum of Rs.572,416 to be recovered in respect of leased assets, as on 31 December 2022.	- Do -	- Do -
(ii)	Vehicle lease rental amount of Rs.2,992,145 due from the year 2019 was not recovered even in the year under review.	Arrangements have been made to recover the arrears of Rs.222,100 related to the years 2020 and 2022, but it has not been possible to identify specific individuals to recover the arrears of Rs.2,060,525 before the year 2019.	Reasons for non-recovery should be found and action should be taken to recover from the persons responsible for it.
(iii)	Action had not been taken to recover Arrears lease of Rs.172,500 to be recovered from the lessee of Rambewa Satipola for the year 2020 and arrears lease of Rs.556,000 to be recovered from the lessee of Rambewa Satipola for the year 2021.	Action is being taken to recover arrears.	Action should be taken to recover arrears.

(c) **Licence Fee**

Outstanding license fees as on 31 December of the year under review was Rs.1,728,570.

Accept

Action should be taken to recover.

(d) **Other Revenue**

Court fines of Rs.758,162 and stamp duty of Rs.1,753,700 due from the Chief Secretary of the Provincial Council and other officials on 31 December 2022 have not been received.

Letters has been sent for recovery.

Action should be taken to recover.

3. Operational Review**3.1 Non Implementing of Projects****Audit Observation**

Provisions of Rs.1,730,000 was made for 04 projects under the Decentralized Development Program of 2017, but those projects had not been implemented by 03 November 2022 and the money had been retained in the industry account for almost 05 years.

Comments of the Council

Referred for the approval to use this money for another project.

Recommendation

This money should be used for a suitable project immediately.

3.2 Not obtained an environmental permit**Audit Observation**

The waste management centre at Sandamalgama was started in 2015, but an environmental permit was not obtained for it.

Comments of the Council

After obtaining the ownership of the land to the council where this waste management centre is located, efforts are being made to obtain the environmental permit.

Recommendation

Necessary activities should be done to obtain the environmental permit.

3.3 Management Inefficiencies**Audit Observation**

Although there were machinery and equipment amounting to Rs.7,744,000 and buildings valued at Rs.5,355,739 in the waste management centre, there was neither adequate production of organic fertilizers nor sales of

Comments of the Council

Compared to 2021, production and sales of organic fertilizers have increased in 2022.

Recommendation

The waste management centre should be constructed as per the proposed plan and maintained optimally.

recycling materials done during the year under review.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
(a) The fully depreciated motorcycle owned by the Sabha which was purchased in the year 1994 for Rs.57,000 by 31 December 2022 was unused and idle.	Action will be taken to auction.	Action should be taken to auction.
(b) A sum of Rs.2,917,338 had been paid for the works completed in connection with the renovation of the old library building belonging to the local council on 25 December 2017, but the building remained idle as it was not completed to a usable condition.	As the engineering instructions have been received, the construction work is underway to start once the provision is received.	The construction work should be started and the necessary work should be done to utilize this building.
(c) The local government department had provided a garbage disposal machine worth Rs.710,000 in the year 2021 to the council, but it remained idled without using.	It has already started to use.	It should be used with maximum efficiency.

3.5 Procurement Management

Audit Observation	Comments of the Council	Recommendation
At the opening of bids for 04 newly constructed shops belonging to the council, awarding of the tender was suspended on the advice of the local government commissioner because the members of the procurement committee tried to change the bid prices. As a result, injustice was done to those who submitted correct bids and the council lost an income of Rs.94,500 per month according to the minimum bid price basis.	As per the instructions of the Local Government Commissioner, awarding of this tender has been cancelled and I will take action as directed to recover the losses incurred by the Council.	The loss due to inability to rent out these shops should be recovered from the parties responsible for it.

3.6 Assets Management

Audit Observation	Comments of the Council	Recommendation
A sum of Rs.94,405 due from the driver in connection with the accident of cab on 16 May 2019 was not recovered.	Only Rs.94,405 had to be recovered from the driver.	Arrangements should be made to recover this outstanding amount.

