

Galnewa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Galnewa 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, 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 Galnewa 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 Standard 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 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) Billboard charges receivable of Rs.281,000 and outstanding telephone tower revenue of Rs.9,000 had been omitted in the accounts for the year under review.	Accepted.	The correct value should be accounted.
(b) Although, the net cash flow of fixed deposit investments and withdrawals was Rs.11,222,882 it was shown as Rs.11,931,577 in the cash flow statement in the year under review.	Since the fixed deposit investment in the year 2021 was Rs.1,468,463 and the fixed deposit in the year 2022 was Rs.13,400,040 the net cash flow was Rs.11,222,882.	- Do -
(c) The fixed assets of Rs.3,877,998 which had been completed in the year 2021, had not been shown in the statement of assets and liabilities under property, plant and equipment in the year under review.	These assets are not listed under property, plant and equipment since these assets are not owned by the council.	Assets in use should be shown as property, plant and equipment in the year under review.
(d) During the year under review, fixed assets received as donations and creditors amounting to	These donated goods are considered as a cash inflow.	Should not be shown non cash activities under

Rs.20,192,340 had been shown under investing activities in the cash flow statement.

investing activities in the cash flow statement.

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| (e) | During the year under review Rs.21,000 received from scrap auction had not been shown in the cash flow statement. | It was considered as no any cash inflows on disposal of assets since the profit and loss are reconciled to the statement of comprehensive income. | Should be shown as a cash inflow in the cash flow statement. |
| (f) | According to the maturity dates of fixed deposits held by the council, interest receivable of Rs.707,277 for fixed deposits as at 31 December 2022 had not been shown in the comprehensive income statement of the year under review. | Fixed deposit interest is stated in the statement of comprehensive income. | Interest should be accounted in respect of the year under review. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
According to the ledger accounts, the accumulated fund was Rs.579,419,742 as at 31 December 2022, but according to the trial balance, it was Rs.572,736,653 which was a difference of Rs.6,683,089.	Accepted.	Should be compared with corresponding records.

1.7 Non- Compliances

1.7.1. 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
(a) 396 (d) of the Financial Regulations of the Democratic	Actions had not been taken in regarding to 03 expired cheques of	Only one cheque of Rs.12,193 was not presented for payment.	Actions should be taken according to financial regulations.

Socialist Republic of Sri Lanka Rs.12,193 issued but not presented for payment.

- (b) The letter from Local Government Commissioner - North Central Provinces No. NCP/LG/DE/04/04/2 020 dated 28 August 2020
- The machines and sewing machines of the council worth of Rs.61,450 had been given on loan basis.
- Rs.391,000 has been received in January 2023. Remaining arrears are being collected.
- The circular should be followed.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.6,683,088 as compared with the excess of revenue over expenditure amounted to Rs.15,987,213 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	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	1,041,400	1,251,800	1,134,500	993,350	1,120,400	1,009,950	1,146,900	876,050
(ii) Rent	5,658,500	6,895,250	6,586,531	5,098,426	4,861,550	4,617,150	9,677,113	4,789,767
(iii) License Fees	439,000	271,000	282,000	169,925	422,950	345,300	360,850	180,925
(iv) Other revenue	14,451,620	27,045,936	27,121,520	13,698,423	24,290,689	29,477,495	32,950,766	13,774,007
	<u>21,590,520</u>	<u>35,463,986</u>	<u>35,124,551</u>	<u>19,960,124</u>	<u>30,695,589</u>	<u>35,449,895</u>	<u>44,135,629</u>	<u>19,620,749</u>

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
(a) Rates and Taxes		
(i) Arrears of garbage tax amounting to Rs.690,250 had not been collected.	Rs.133,100 have been recovered from the outstanding amount. A lawsuit has been filed for the remaining arrears.	Arrears should be recovered.
(ii) At the end of the year under review, the tender tax rent to be collected was Rs.1,468,604, in that Rs.306,242 was included which was more than two years old.	Rs.62,663 have been recovered from the outstanding amount.	- Do -
(iii) A sum of Rs.1,224,600 dues for renting of trade rights and rent of shops owned by the council which were more than two years old, had not been collected.	Lawsuits have been filed against these delinquent tenants.	- Do -
(b) Rent		
The total value of rent receivable as at 31 December of the year under review was Rs.2,371,350, of which Rs.1,557,100 was over 01 year.	Rs.376,850 have been recovered from the outstanding amount. A lawsuit has been filed to recover the remaining amount.	- Do -
(c) Other Revenue		
(i) A survey of the billboards displayed in the council jurisdiction had not been conducted during the year under review and the arrears of Rs.281,000 had not been collected.	Accepted.	- Do -
(ii) A sum of Rs.772,049 dues for water sold from 04 water projects maintained	Rs.1,077,094 has been recovered from the	- Do -

by the council and for providing new outstanding amount. connections had not been recovered.

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| (iii) | Court fines of Rs.10,874,349 and stamp duty of Rs.554,100 that should have been received from the Chief Secretary of the Provincial Council and other authorities by 31 December 2022 had not been received. | Accepted. | Actions should be taken to obtain the arrears. |
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3. Operational Review

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.

Not providing slaughterhouse facilities and not charging fees for selling meat

Audit Observation	Comments of the Council	Recommendation
(a) Three meat shops in Negama, Galnawa town and Verunkulama had been rent out annually, but the slaughterhouse facilities for those meat shops had not been provided by the council.	In the future, will get a land and build slaughterhouses.	Actions should be taken to construct slaughterhouses.
(b) According to the by-law gazette notice dated 23 August 1988, by-law 32, section 09, a fee of not more than Rs.10 should be charged to the council for using the logo of the council for every 01 kg of meat inspected in the jurisdiction, but it had not been done accordingly.	Actions will be taken in future.	General standard by-laws should be followed.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
The rules 13 and 14 introduced in the year 2020 related to the finance and administration of the council had not been dealt regarding the misplacement of books worth Rs.38,236 in the	Accepted.	Rules should be followed.

libraries belonging to the council according to the board of survey report conducted in the year 2021.

4. Accountability and Good Governance

Environmental Observations

Audit Observation	Comments of the Council	Recommendation
The garbage collected from the council area had not been recycled and most of the garbage had been piled exposed to the environment. 14960 kg of organic fertilizers had been stored as at 06 December 2022 since there is no arrangement to sell the organic fertilizers produced at the garbage center.	Garbage is sorted and collected and produce and sell compost fertilizers.	Marketing of organic fertilizers should be developed.