

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Udubaddawa Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, 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 Sub-section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the Provisions of the 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 Udubaddawa Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles for Local Authorities

1.2 Basis for Qualified Opinion

I express qualified opinion 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 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 Principles, 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 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 Sabha	Recommendation
(a) The expenditure incurred for land and buildings amounted to Rs.1,877,452 during the year under review had not been capitalized.	That will be corrected in the financial statement of the year 2023 .	It should be accurately accounted for.
(b) Office equipment valued at Rs.440,550, machinery and equipment valued at Rs.134,775 and furniture valued at Rs.324,350 purchased during the year under review had not been accounted for under fixed assets as at 31December 2022 .	-do-	-do-

- (c) The value of 04 lands amounting to Rs.195,000 had not been included in the accounts of the year under review. The land and building fixed asset records are being prepared by now. -do-.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs. 4,589,509 between the financial statements and source documents in relation to 05 accounting objects as at 31 December of the year under review.	Actions will be taken to correct in the financial statements of the year 2023.	It should be accurately accounted for.

1.7 Non –compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations Management Decisions etc.	Non-compliance	Comments of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Deposits of Rs. 719,299 for more than 02 years had not been taken into revenue.	Actions will be taken to take the retention of Rs. 163,337 to income .	Actions should be taken in terms of Financial Regulations
Financial Regulation 571			

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2022 was Rs. 19,816,376 and the income exceeding the recurrent expenditure of the preceding year was Rs. 12,040,903 .

2.2 Revenue Administration

2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

The estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December
	Rs000 .	Rs000 .	Rs000 .	Rs000 .	Rs000 .	Rs000 .	Rs000 .	Rs000 .
I. Rates and Taxes	3,624	2,296	2,072	224	3,446	4,083	2,258	1,825
II. Rents	1,356	12,137	11,313	824	12,301	7,395	6,710	684
III. License Fees	13,563	873	873	-	1,041	891	891	-
IV. Other Income	2,181	58,858	48,601	10,257	62,444	39,176	4,618	34,557
Total	20,724	74,164	62,859	11,305	79,232	51,545	14,447	37,066

2.2.2 Performance on Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and Taxes The arrears of Rs.1,567,357 for more than 05 years and the arrears of Rs.2,059,995 between 02 and 05 years in the total balance of rates and taxes amounted to Rs.4,198,764 as at 31 December 2022 had been in receivable.	Actions are being taken to recover arrears of rates and taxes.	Rates should be recovered promptly.

(b) Acreage Taxes

An arrears of Acreage Tax amounted to Rs. 93,179 had to be received as at 31 December 2022 .

Most of the acreage tax-paying land in the Pradeshiya Sabha area has now been sold to others, and other properties of another part, have been fragmented.

Acreage taxes should be recovered promptly.

(c) Court Fines and Stamp Duties

The court fines and stamp duties receivable as at 12 April 2023 from the Chief Secretary of the Provincial Council and Other Authorities were Rs. 43,883,364 and Rs.249,922 respectively.

Actions are being taken to collect arrears .

Actions should be taken to recover Court Fines and Stamp Duties receivable promptly.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) The uncollectable salary reimbursement value from the year 2014 amounted to Rs. 14,781,431 had been accounted for as debtors without being recovered or taking other necessary action.</p>	<p>Since the Local Government Department has indicated that the amount cannot be reimbursed, arrangements will, be made to be settled from the General Fund in the future.</p>	<p>Actions should be taken to settle.</p>
<p>(b) The balance receivable in relation to 11 account balances was Rs.110,602,608 by 31 December of the year under review and there was a balance of Rs. 6,602,342 which has been in existence for more than 5 years.</p>	<p>Actions will be taken to recover the receivables in the future.</p>	<p>Balances receivable should be recovered promptly.</p>

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| (c) | There was a payable balance of Rs.39,400,708 in relation to 05 account balances as at 31December of the year under review and In that, there was a tender deposit balance of Rs.19,369 more than 05 years old, and a balance of Rs.14,406,189 related to the period from 01 - 05 years within that. | Actions will be taken to settle the creditor's balances and to correct the creditor's balances if there is overprovisions, to be settled through journal entries when preparing the financial statements for the year 2023. | Actions should be taken to settle the creditor balances. |
| (d) | The value of 25 items of furniture equipment belonging to the Sabha had not been assessed and accounted for. | Actions will be taken to be assessed the value and entered in the Register in the next year. | The value of assets should be accurately assessed and accounted for. |
| (e) | The values for furniture equipment, machinery and office equipment auctioned on 04 March 2022 as per Board of Survey recommendations dated 31 December 2021 had not been identified and take off from the accounts. | Action will be taken to correct when preparing the financial statements of the year 2023 . | Relevant values should be identified and properly accounted for. |

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
Although the property for which rates are levied should assessed every 05 years and charges are levied based on that the Sabha had not done accordingly.	Survey activities are being done by GIS technology to make new assessments.	The properties should be properly assessed and duly charged.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Registers of fixed assets had not been maintained for machinery and equipment amounting to Rs. 9,400,374 and furniture and equipment amounting to Rs.13,384,465.	Arrangements will be made to prepare a new fixed asset register adjusting with accurate information.	Fixed asset registers should be maintained in an updated manner.
(b) There were 51 cemeteries maintained by the Sabha and actions had not been taken to take over 47 burial grounds and 06 sports grounds out of these and the ownership of 03 vehicles used by the Sabha had not been transferred to the Sabha .	The requests have been submitted to the Divisional Secretary regarding the transfer of 47 lands and 06 playgrounds maintained by the Sabha, to the Sabha.	Actions should be taken to take over these assets promptly.

3.4 Idle and Underutilized Assets

Audit Observation	Comments of the Sabha	Recommendation
The ambulance owned by the Sabha had been parked without being repaired.	Since there was no provision in the Sabha to upgrade the vehicle, even though the allocations for the year 2022 have been requested from Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, it was not possible to provide the allocations for that year.	The assets should be utilized optimally.

3.5 Delays in Execution of Projects

Audit Observation	Comments of the Sabha	Recommendation
A project estimated at Rs.1,200,000 as at 31 December 2022, had not been commenced and works on 10 projects estimated at Rs. 5,434,258 had not been completed.	Actions will be taken to be completed by 31 December 2023.	The estimated industries should be completed as expected.

3.6 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
There was an irrecoverable loan balance of Rs.217,020 remained pertaining to 02 employees.	These officers have been informed by letters to pay the arrears of employee loan.	Actions should be taken to recover the arrears of employee loan balances.

4. Accountability and Good Governance

Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
Only less than 60 per cent of the estimated allocation of 100 recurrent expenditure objects had been utilized during the year and less than 60 per cent of the allocated amount had been spent in respect of 10 capital expenditure objects.	Control government expenditure by National Budget Circular No. 1222/3 and inability to spend the estimated allocations for the relevant work and failure of implementation of projects, controlling the costs and having to spend for the essential works have caused to this.	Actions should be taken to realistically prepare the Budget and utilize the allocation optimally based on it .