

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Galgamuwa Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Sub-section 172(1) of the Pradeshiya Sabha Act, No. 15 of 1987. My comments and observations which I consider should be reported 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 Galgamuwa Pradeshiya Sabha as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

A qualified opinion on financial statements will be expressed 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 practices, and for such internal control as management determines 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 Sub-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 to be prepared of the Pradeshiya Sabha..

1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 Pradeshiya Sabha's 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

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

- The financial statements of the Pradeshiya Sabha are 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 following recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned 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) During the year 2021, the development expenses of 06 buildings amounting to Rs.19,122,485 and the value of the equipment worth Rs.187,196 purchased during the year 2021 had not been capitalized.	That the accounts will be corrected at the time of preparing the financial report for the year 2023.	Proper accounting should be done.
(b) As on 31 December 2022, the outstanding rate balance had been over stated by Rs.429,613.	That this numerical value has occurred on the transition of two years of arrears of rate account.	- Do -

1.6.2 Unreconciled Control Account

Audit Observation	Comment of the Sabha	Recommendation
According to the financial statements of 08 accounting subjects, there was a difference of Rs.4,668,257 between the value of the financial statement and the total of schedule.	That the financial statement of the year 2023 will be corrected.	Proper accounting should be done.

1.7 Non-compliances

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

The following observations are made for Non-compliance with Laws, Rules, Regulations and Management Decisions

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
(a)	Local Council Act No. 15 of 1987			
	Section 152	Rs. 398,984 arrears of rate and tax more than 5 years old had not been recovered.	That the red notices have already been issued.	The relevant section shall be followed.
(b)	1988 Pradeshiya Sabhas (Finance and Administration)			
i	Rules 59	At the beginning of the year, a survey was conducted on trade licenses, industry and business taxes, but the information obtained was not included in the revenue records and billed.	That all industries that carry out relevant surveys will be included in the register and taxed from the year 2023 .	The relevant rule instructions should be followed.
ii	Rules 218	Although the Board of Survey should conduct an annual survey of fixed assets including land and buildings, but it was not done so.	That an investigation board will be appointed in this regard in the year 2023 .	- Do -

(c) Financial Regulations of
the Democratic Socialist
Republic of Sri Lanka

No. 571

Overdue security deposits
amounting to Rs.2,396,826
were not regulated.

Regarding the rest of
the deposited money,
the decision of the
committee will be
made according to the
Financial regulations.

Actions
should be
done
according
to
Financial
Regulations

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over expenditure of the Sabha for the year ended 31 December 2022 was Rs. **17,224,730** as compared with the corresponding revenue over expenditure of Rs. **14,362,551** of the preceding year.

2.2 Control of Revenue

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

Item of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total deficit as of December 31 from billed revenue	Estimated Revenue	Billed Revenue	Collected Revenue	Total deficit as of December 31 from billed revenue
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Rates and Taxes	4,725	2,961	2,292	668	4,536	3,035	1,081	1,954
Rental	22,713	10,628	9,629	998	24,205	21,807	9,986	11,820
License Fees	2,120	2,141	2,141	-	1,987	3,035	3,035	-
Other Revenue	21,958	27,153	19,076	8,077	19,053	23,192	28,192	-
	<u>51,516</u>	<u>42,883</u>	<u>33,138</u>	<u>9,743</u>	<u>49,781</u>	<u>51,069</u>	<u>42,294</u>	<u>13,774</u>

2.2.2 Performance of **Revenue collection**

Audit Observation	Comment of the Sabha	Recommendation
(a) Rent As on December 31 of the year under review, arrears of rent amounting to Rs. 1,954,112 were due for lease of 16 properties.	That the 07 properties have been referred for litigation out of rent arrears as on 31 December 2022 .	Arrears rent for shops and fines should be recovered early.
(b) Other Revenue For the year under review, service fees amounting to Rs. 6,051,405 , fines and warrant fees amounting to Rs. 7,537,932 and other income amounting to Rs. 1,184,945 had been due.	That the related money will be recovered.	Arrangements should be made to collect the receivable income.

3. **Operational Review**

3.1 **Management Inefficiencies**

Audit Observation	Comment of the Sabha	Recommendation
(a) As on 31 December of the year under review, the total balance of 03 accounts receivable balances related to the period of 02 to 05 years was Rs. 92,106,915 and the total of accounts that exceeded a period of 05 years was Rs. 4,744,009 .	That will be recovered in the future.	Arrangements should be made to recover outstanding receivable balance.
(b) As on 31 December of the year under review, the total payable account balance for the period from 02 to 05 years was Rs. 101,327,793 and the total balance for more than 05 years was Rs. 10,003,534 .	- Do -	Arrangements should be made to settle the payable balance.
(c) The value of 20 lands and buildings owned by the council and 05 equipments received as donations to the pre-school had not been assessed and included in the financial statements.	That after checking and documenting it will be included in the financial statements.	Assets should be properly valued and properly accounted for.

3.2 Assets Management

Audit Observation

The van and jeep, **15** lands and **04** playgrounds, **46** pre-schools and **117** burial grounds used by the council had not been handed over to the council by the end of the year under review.

Comment of the Sabha

That the ownership of the van and the jeep will be transferred to the council

Recommendation

Assets owned by the council should be taken over.

4. Accountability and Good Governance

Budgetary Control

Audit Observation

It was observed that the budget had not been used as an effective management control tool due to the fact that there was a variation of **34** to **158** percent between the estimated and actual income of **05** revenue heads in the reviewed year and more than **30** percent of the net allocation was not spent in **18** budget subjects.

Comment of the Sabha

That the **2024** budget will be prepared by avoiding the variances shown in the preparation of the budget.

Recommendation

Actions should be made to prepare the budget realistically and based on it to utilize the allocations optimally.