

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Manmunai South & Eruvil Pattu Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Balance Sheet as at 31 December 2022, Income and Expenditure Account, 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 Manmunai South & Eruvil Pattu 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 Practices.

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 Generally Accepted Accounting Practices, 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 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	Comment of the Council	Recommendation
(a) In the year under review, stamp duty had been under accounted by Rs. 29,278,134.	That the understated value will be corrected.	The income for the year should be disclosed in the financial statements.
(b) A sum of Rs. 895,941 of warehouse inventory and Ayurvedic medicines inventory balance of Rs. 866,860 as at the end of the year under review had not been shown as assets in the financial statements.	That action is taken to add the warehouse inventory as an asset.	Inventory balances should be disclosed as assets in the financial statements.
(c) In the year under review, fixed deposit interest income had been understated by Rs. 51,150.	This error is being corrected.	The income for the year should be disclosed in the financial statements.

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| (d) | 1,632 books worth Rs. 372,213 received as donations to 11 libraries belonging to the council had not been shown as assets in the financial statements. | - Do - | Books received as donations should be disclosed as assets in the financial statements. |
| (e) | 31 unvalued fixed assets, organic fertilizer packaging liquid worth Rs. 68,012 and bulk of organic fertilizer worth Rs. 149,700 had not been shown as assets in the financial statements. | That actions will be taken to add as assets in the year 2023. | Assets and inventory should be disclosed in the financial statements. |

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
As at 31 December of the year under review, 09 account balances worth Rs. 26,037,993 could not be satisfactorily monitored during the audit due to non-submission of land deeds, fixed asset registers, advance register and documents proving ownership and balances.	That the actions have been taken to collect and enter information on fixed assets such as land and buildings, plants and motor vehicles and outstanding balances.	Actions should be taken to collect the documents related to the assets and enter them in the ledger.

1.7 Non- Compliances

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

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulation of the Democratic Socialist Republic of Sri Lanka – 371 (2)	A sum of Rs. 1,335,076 of advances given by the council during the period of last 10 years had not been settled even at the end of the year under review.	That the advice of the Head of the Department has been sought for adjusting the advances which are not having details.	Actions should be taken to recover advance payments.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 7,605,386 as compared with excess of revenue over recurrent expenditure amounted to Rs. 8,125,623 in the preceding year.

2.2 Revenue Administration

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

According to the information submitted by the council, the details 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	3,050,000	7,342,800	6,689,430	3,157,670	2,550,000	5,709,310	4,518,360	2,504,300
ii. Rent Income	17,737,000	9,085,657	17,491,824	6,919,645	17,737,000	20,423,972	5,827,642	15,325,812
iii. License Fees	1,825,000	2,591,510	2,591,510	--	1,200,000	2,000,960	2,000,960	--
iv. Other revenue	<u>43,610,000</u>	<u>55,040,481</u>	<u>55,040,803</u>	<u>5,005,689</u>	<u>83,410,000</u>	<u>56,361,682</u>	<u>56,966,419</u>	<u>5,006,011</u>
Total	<u>66,222,000</u>	<u>74,060,448</u>	<u>81,813,567</u>	<u>15,083,004</u>	<u>104,897,000</u>	<u>84,495,924</u>	<u>69,313,381</u>	<u>22,836,123</u>

2.2.2 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Taxes		
(i) Business tax of Rs. 60,000 for communication towers from the last year 2021 had been remained outstanding even at the end of the year under review.	That legal action will be taken against entities defaulting on business tax arrears.	Actions should be taken to collect business tax on communication towers.

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| (ii) | From the year 2019 till the end of the year under review, arrears of entertainment tax of Rs. 200,000 from the theaters operating in the council area had not been recovered. | Letters have been sent requesting theaters to pay entertainment tax. Also, that legal action will be taken in case of failure to pay. | Actions should be taken to recover the arrears of entertainment tax. |
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| (b) Rental | | | |
| (i) | From the year 2008 to the end of the year under review, the outstanding shop rentals was Rs. 8,504,005. | Rs. 216,750 have been recovered from the arrears. That actions have been taken to recover the remaining arrears. | Actions should be taken to recover arrears of rentals. |
| (ii) | From 2008 to the end of the year under review, the arrears of lease rent amounting to Rs. 6,985,055 had not been collected. | It was not collected due to the bad situation in the country in the period 1985-2009. Therefore, this has been reported to the head of the department and actions have been taken to cut it off. | Actions should be taken to recover arrears of lease rent. |
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| (c) Stamp Duty | | | |
| | As at 31 December of the year under review, stamp duty receivable from the Chief Secretary of the Provincial Council and other officials was Rs. 4,498,191. | That actions will be taken to recover in the year 2023. | Actions should be taken to remit the outstanding stamp duty. |

3. Operational Review
3.1 Identified Losses

Audit Observation	Comment of the Council	Recommendation
In the reviewed year, there was a cash in-hand balance of Rs. 24 to 34 million on the last day of each month in the current bank account and the council had not been taken actions to invest the money in the bank's fixed deposits and earn interest income. Due to this, in the year under review, the council incurred approximately Rs. 1.5 million in lost revenue.	That the surplus money in the bank account will be deposited in fixed deposits with the approval of the Head of the Department.	Surplus money should be invested effectively.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) According to Public Circular No. 1769 issued by the Deputy Director General of the Director General of Health Services dated 30 September 1992, even though a Public Health Inspector can create plans of a building only for single-storied houses, 03 plans for two-storied buildings drawn by the Public Health Inspector during the year under review had been approved by the council.	That two-storied buildings are allowed to be approved by the council only if the civil engineer is recommended by whoever is drawn.	It should be proceeded as per the circular.
(b) The council had not been taken necessary actions regarding 06 unauthorized building constructions.	That actions are being taken to collect fines for buildings constructed without approval.	Necessary legal actions should be done.
(c) Since the value of total of 53 land and buildings and 27 motor vehicles that were assessed in some years ago, had been continuously presented in the financial statements, their fair value was not disclosed in the financial statements.	That actions will be taken to revalue those assets.	The fair value of assets should be disclosed in the financial statements.

3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
Actions had not been taken to repair 02 vehicles which were in repairable condition and to dispose of 03 vehicles which were unusable.	That actions have been taken to repair the vehicles and remove unusable vehicles.	Actions should be taken to repair vehicles and remove unusable vehicles.

3.4 Procurement Management

Audit Observation	Comment of the Council	Recommendation
A procurement plan had not been prepared for the year under review.	That action will be taken to prepare a separate procurement plan for supplies.	A procurement plan should be prepared for the procurement process.

3.5 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
(a) Employee Vacancies and Excess According to the staff list approved by the Department of Management Services, there were 27 vacancies and 12 excess employees for 12 posts in the council.	That although the council took decisions and made requests regarding the vacant staff, no progress was made.	Actions should also be taken to fill up the vacancies and take appropriate action in respect of excess staff.
(b) Employee Loans The council had not been taken actions to recover the disaster loans and other loans of Rs. 130,036 which were given to 02 employees, for the past 7 years.	That is being collected from the monthly pension of the deceased officers.	Outstanding employee loans should be recovered.

4. Accountability and Good Governance

Submission of Financial Statements

Audit Observation	Comment of the Council	Recommendation
<p>According to sub-section 15(1) of the National Audit Act No. 19 of 2018, the financial statements should be submitted to the Auditor General within three months of the end of each financial year. Thus, submitted for audit on 11 April 2023. However, the annual performance report had not been submitted with the financial statements in terms of sub-section 16(2) of the National Audit Act No. 19 of 2018.</p>	<p>Council will take care so that such errors do not occur in the future. Also, that the annual performance report will be submitted promptly.</p>	<p>According to the Act, actions should be made to submit the financial statements on the due date.</p>