

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Balangoda 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 operations, cash flow statement, statement of changes in equity, significant accounting policies and the summary of other explanatory information 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 the sub section 181 (1) of the Urban Council Ordinance (Authority 255) 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 accompanying financial statements give a true and fair view of the financial position of the Balangoda Urban Council 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 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 Responsibility for the Audit of 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 financial reporting process of the Urban Council

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council is required to maintain proper books and records of its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Auditor's Responsibility 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 exercise professional judgment and maintain professional skepticism 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 the 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 contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council;
- Whether the Urban Council has performed according to its powers, functions and duties; and
- Whether the resources 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 contains special provisions regarding the following requirements.

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Urban Council is corresponded with financial statements of the previous year.
- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (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 -----
Accrued expenses related to the year under review amounting to Rs. 1,315,430 and the value of compost stock was not accounted.	The accrued expenses will be corrected in the preparation of the financial statements for the year 2023 and that the closing stock will not be calculated as no production account will be prepared.	This should be corrected.

1.6.2 Lack of Written Evidences for Audit

Subject -----	Comments of the Council -----	Recommendation -----
Detailed schedules were not submitted for 04 account balances totaling Rs. 504,274,940.	That the schedule can be submitted by the end of this year.	Detailed schedules should be prepared.

1.7 Non-compliance

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

Non-compliance with Laws, Rules, Regulations and management decisions are as given below.

Non-compliances -----	Comments of the Council -----	Recommendation -----
According to section 2.5 of the Public Finance Circular No. 01/2021 dated 29 September 2021, 10 industries totaling Rs.6,841,637 were awarded to community based organizations outside their respective jurisdictions.	That the civil society organizations of the domain in which the relevant industry is located have informed that there is no objection to providing the relevant industry to a civil society organization of another domain.	Should be followed the circular instructions.

2. Financial Review

2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2022 was Rs. 4,227,487 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 15,063,975.

2.2 Revenue Administration

2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the council, the information about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year is given below.

Income Source	2022				2021			
	Estimated income	Billed income	Collected income	Arrears as at 31 December	Estimated income	Billed income	Collected income	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	10,777,000	11,611,507	12,335,139	6,156,320	10,700,000	11,951,860	8,429,144	6,874,552
Rentals	36,096,000	35,675,467	34,481,551	860,427	38,729,000	29,003,597	31,208,785	1,551,806
License fee	2,285,000	1,534,728	1,379,728	-	2,223,000	1,503,965	1,452,216	-
Other income	<u>27,030,000</u>	<u>24,701,612</u>	<u>24,957,583</u>	<u>-</u>	<u>22,143,000</u>	<u>20,990,067</u>	<u>18,375,765</u>	<u>-</u>
	<u>76,188,000</u>	<u>73,523,314</u>	<u>73,154,001</u>	<u>7,016,747</u>	<u>73,795,000</u>	<u>63,449,489</u>	<u>59,465,910</u>	<u>8,426,358</u>

2.2.2 Performance of the Revenue Collection

The observations regarding the performance of the revenue collection of the council are given below.

Audit Observation	Comments of the Council	Recommendation
(a) Rs.6,156,320 arrears of assessment and taxes related to the year under review and the previous years were not collected and a related time analysis was also not prepared.	It is not possible to carry out a time analysis under the existing assessment programme, which will be done in future to recover the outstanding balances.	Arrangements should be made to collect the arrears revenue.
(b) Rs. 279,809 arrears of rental income related to previous years had not been recovered by the end of the year under review.	The respective arrears will be recovered.	Arrangements should be made to recover the arrears revenue.

- | | | |
|---|--|---|
| (c) Due to lack of survey of the displayed notice boards, the revenue to be received from that could not be ascertained. Also, Rs. 346,560 was charged less for one notice board. | The survey is being conducted in the year 2023. That the amount loss to the council by making charges in the year 2022 based on the decision of the Chairman is Rs. 346,560.00 | Annual surveys should be conducted and collected revenue. |
|---|--|---|

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
Without considering the value of the tickets, only Rs.500,000 was collected as entertainment tax from a 10-day festival. Also, an income of Rs. 200,000 had been lost due to non-charging of fees for the playground and gymnasium in accordance with the gazette announcement.	The charges were collected in accordance with the decision of the council.	Charges should be charged as per gazette notification No. 2257 dated 03 December 2021.

3.2 Controversial Transactions

Audit Observation -----	Comments of the Council -----	Recommendation -----
Two members and an officer had spent Rs. 42,576 on fuel for non-official travel and had used council's van.	The vehicles owned by the council will not be used for personal use in future.	Government vehicles should not be used for non-official travel.

3.3 Assets Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The ownership of the land on which the Urban Council office, Sabha Ayurveda, Reading hall, public playground and auditorium are located had not been taken over.	That land acquisition is being done.	Should be taken over the ownership of assets.
(b) The 05 acres and 35.44 perches mentioned in the documents as owned by the council had not been physically identified and settled.	That unsettled lands are physically identified and settlement activities are being carried out.	Should be taken over the ownership of assets.
(c) 50 Bulbs bought for a playground on 18 February 2020 for Rs. 257,500 and electrical devices worth Rs. 128,375 given in the years 2019 and 2020 remained unused till now.	That bulbs will be used once other devices can be procured.	Purchase of goods should be done after identifying the need.

3.4 Assets Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) A compactor and a gully tank were unused from more than 05 years.	That the gully tank is referred to dispose under scrap materials.	Assets should be utilized effectively.
(b) Ownership of 06 vehicles which were not owned by the council had not been taken over or returned.	The documents related to taking ownership of the vehicles have been forwarded to the Chief Ministry.	Action should be taken as per Assets Management Circular No. 02/2017.

3.5 Informal Transactions

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The court had imposed a fine of Rs. 125,000 to the Balangoda innkeeper due to keeping 10 kg of beef in the year 2019 and non-accounting for 2.250 liters of brandy in the year 2022. According to the agreed agreement, the inn was leased to the same lessee outside of the procurement process for the year 2023 even though the right of lease should be canceled in case of illegal action.	It was informed that if there is any violation of terms of the agreement, the inn will be taken over by the council based on the decision of the general meeting.	Should be act as per agreements.
(b) Plans for 02 unauthorized buildings were approved and compliance certificates were issued at the discretion of the Chairman. The council had also missed the income of Rs. 886,301 when giving that approval	With considering applicant's request, the building plans were approved in good faith based on the approval of the General meeting and the relevant certificates were issued.	Approval of building plans and issuance of compliance certificates should be done in accordance with the relevant rules and regulations.