

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, statement of cash flow, 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 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 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 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 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 Pradeshiya Sabha.

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 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 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 the Pradeshiya Sabha 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 Pradeshiya Sabha 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

Accounting Deficiencies

	Audit Observation -----	Comments of the Council -----	Recommendation -----
(a)	Expenses of Rs. 10,018,820 for improvement of fixed assets were not capitalized.	It will be corrected in future.	It should be corrected.
(b)	Donated fixed assets amounting to Rs. 8,012,045 were not adjusted by the statement of financial operations.	It will be corrected in future.	It should be corrected.
(c)	A hypothetical rental income and expenditure of Rs. 3,612,605 had been accounted in relation to providing the backo machine owned by the council for Janadiriya programme and other welfare activities.	It will be corrected in future.	It should be corrected.
(d)	The arrears income of Rs. 770,685 was overstated.	An omission. That will be corrected in future.	It should be corrected.

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. 10,267,712 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 10,653,255.

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	Estimated income	2022		Arrears as at 31 December	2021		Arrears as at 31 December	
		Billed income	Collected income		Billed income	Collected income		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Assessments and tax	1,378,381	1,083,059	1,030,861	134,681	1,833,380	1,051,400	1,080,234	100,845
Rentals	9,091,650	6,222,837	5,934,426	86,057	8,414,900	4,517,336	4,262,890	244,839
License fee	905,500	881,370	896,120	-	588,500	1,021,960	922,580	-
Other income	<u>5,489,500</u>	<u>11,573,436</u>	<u>10,908,834</u>	<u>-</u>	<u>4,335,500</u>	<u>5,617,773</u>	<u>5,716,706</u>	<u>345,684</u>
	<u>16,865,031</u>	<u>19,760,702</u>	<u>18,770,241</u>	<u>220,738</u>	<u>15,172,280</u>	<u>12,208,469</u>	<u>11,982,410</u>	<u>691,368</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) There was an outstanding acre tax balance of Rs. 49,814 more than 03 years and a land lease balance of Rs. 21,300 between 01 and 17 years as at 31 December 2022. Also, there were no valuation reports for 19 plots that were given on the land lease basis of the Yakahalu Mukalana land.	An investigation is being carried out now to recover the acreage tax and the arrears related to the Yakahalu Mukalana plots will be recovered in near future.	Action should be made to recover the arrears income.
(b) Rs. 64,756 outstanding from 02 shops in Welioya Economic Center and one shop in Duwiliella tourism center were not recovered from the contract guarantee deposit.	The arrears of rent will be recovered in future.	Action should be made to recover the arrears income.
(c) Outstanding telephone transmission tower charges of Rs. 27,000 from the year 2019 to the year 2022 and notice board fees to be charged for the years 2021 and 2022 of Rs. 169,260 were not charged. Also, no survey was conducted during the year under review to identify the displayed notice boards.	That letters have been sent to the relevant institutions with informing them to pay the arrears and a survey will be conducted in the year 2023.	Action should be made to recover the arrears income.

3. Operational Review
3.1 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Although Rs. 183,124 was paid in the years 2021 and 2022 to obtain the contour line map and land suitability certificate of Polwathugoda, Mahawalathenna land, those tasks were not completed until January 2023. The Rassagala small city development plan could not be implemented due to the inability to take over the land.	Letters have been sent to the council to get recommendations from the relevant institutions for take over this land.	The relevant land should be taken over and the city development plan should be implemented immediately.
(b) The two-storied building in Welioya city, which was built in the year 2015 at Rs. 27,253,473, remained unused by the end of the year 2022.	The agreement to get a loan for the development of the building has been signed and sent to the Local Loan and Development Fund.	Assets should be utilized effectively.
(c) There was no formal programme to identify illegal constructions. Although 29 unauthorized constructions identified in the years 2021 and 2022 were notified to be regularized, there was no follow-up.	That unauthorized constructions are documented and action is being taken and that a systematic programme is being prepared to follow up and receive reports.	Action should be taken to regularize or remove unauthorized constructions.
(d) Hume pipes worth Rs. 830,300 were given to 58 societies, but there was no follow-up on whether they were used for the intended purposes.	A follow-up will be done on this.	Should be done immediate follow-up.
(e) The collected waste was not disposed in an environmentally friendly manner and the bale machine, which is Rs. 950,000 received from the provincial council in August 2022, remained unused since the received date due lack of three-phase power.	That the bailer machine could not be used due to lack of three-phase power.	A solid waste management programme should be planned and implemented.

3.2 Procurement Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
A lawyer had been selected on the approval of the general meeting, outside of the procurement system and without entering into a formal agreement, to obtain legal services for the council.	A lawyer will be selected by entering into a formal agreement in future according to the procurement procedure.	Procurement guidelines should be followed.

3.3 Contract Administration

Audit Observation ----- -----	Comments of the Council ----- -----	Recommendation ----- -----
All the qualified bidders had lost the opportunity to publish in the newspaper due to that only bidders from Sabaragamuwa Province had been published for setting up a wooden platform in the council.	There are qualified contractors in the Sabaragamuwa Province and advertisements were published for the bidders in the province for the facilitate of construction work.	Should be act as per the procurement guidelines.