

Embilipitiya Pradeshiya Sabha – 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Embilipitiya 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, 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 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 Embilipitiya 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

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Total amounting of Rs. 26,900,777 of 03 lands, 07 buildings and a tractor owned by the council were not accounted and the cost of a crematorium was under-accounted by Rs. 4,559,350.	Action will be taken to correct.	This should be corrected.
(b) Rs. 129,287 week fair charges and shop charges related to the year under review were not accounted as income.	Action will be taken to correct.	This should be corrected.
(c) Industrial creditors had over-accounted by Rs. 36,950,406. Therefore, the surplus of Rs. 9,486,036 in the year under review had turned into a deficit of Rs. 27,464,380.	Action will be taken to correct.	This should be corrected.
(d) According to the loan register, the balance was indicated in the financial statements as Rs. 651,190 more than the employee loan balance as at 31 December 2022.	Action will be taken to correct.	The reasons for the difference should be identified and solved.

1.6.2 Deficiencies in the Preparation of Accounts

Audit Observation -----	Comments of the Council -----	Recommendation -----
66 Journal entries worth Rs. 919,789,010 had not been formally approved and journal vouchers had not been prepared.	Action will be taken to correct.	The reasons for the difference should be identified and solved.

1.6.3 Lack of Written Evidences for Audit

Subject -----	Comments of the Council -----	Recommendation -----
(a) A fixed deposit certificate valued at Rs. 93,337 was not submitted to the audit.	That there are no certificates of deposit related to these fixed deposit balances, which have existed since the time of the village council.	Arrangements should be made to obtain a certificate of deposit from the bank.

- (b) Although the Thimbolketiya week fair land was accounted for Rs. 1,289,400, its physical existence as well as its written title was not confirmed. That the accounting of this value is corrected due to lack of written title and physical existence. Arrangements should be made to settle.

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.

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) 07 Members elected in the election of 2018 had not been submitted assets and liability statements by the end of the year under review in accordance with the Assets and Liabilities Declaration Act No. 01 of 1975 as amended by Act No. 74 of 1988.	Informed to submit assets and liability statements.	Declaration of assets and liabilities should be done as per Act.
(b) The amount of Rs. 1,269,079 advances given in 26 cases during the period from 1988 to 2013 was not settled as per Financial Regulation 371 (5).	It has been sent to the Governor for approval to cut-off.	Should be act as per Financial Regulations.
(c) The council was not enacted by-laws for 11 major matters under section 126 of the Pradeshiya Sabha Act.	19 B- laws have been adopted and by-laws are being prepared for 04 of the remaining 11 matters.	It should be done as per the provisions of the Pradeshiya Sabha Act.

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. 27,125,594 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 10,845,925.

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	9,745,304	9,373,625	7,278,265	10,387,878	14,438,667	9,669,115	7,494,994	8,497,025
Rentals	10,111,388	8,472,302	6,770,425	7,943,638	11,035,500	10,783,645	5,548,398	6,247,278
License fee	1,502,000	1,789,200	1,821,900	146,400	2,204,000	1,169,350	1,068,250	179,100
Other income	<u>4,209,625</u>	<u>5,072,179</u>	<u>6,827,200</u>	<u>-</u>	<u>4,463,800</u>	<u>5,808,322</u>	<u>5,833,088</u>	<u>43,030</u>
	<u>25,568,317</u>	<u>24,707,306</u>	<u>22,697,790</u>	<u>18,477,916</u>	<u>32,141,967</u>	<u>27,430,432</u>	<u>19,944,730</u>	<u>14,966,433</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
There was a balance of Rs. 1,336,099 more than 05 years out of the outstanding assessment balance of Rs. 9,492,588 as at the last date of the year under review.	Rs.1,942,492 has been collected from the deficit as until 28.02.2023.	Arrangements should be made to collect the arrears of revenue.

3. Operational Review

3.1 Performance of functions assigned by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities done by the council under section 3 of the Pradeshiya Sabha Act are shown below.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) There was no supervision of any officer in the rental of the motor grader, gully bowser and backhoe, which earned a rental income of Rs. 847,440 during the year under review.	Lack of a Technical officer was the reasons. The Technical Officer supervises now while renting the motor grader.	There should be proper internal control.
(b) There was a balance of Rs. 343,114 more than 02 years old to be charged from Chandrika Wewa district hospital due to the rental of the backhoe machine.	That the District Health Services Director had agreed to pay the amount.	The income to be received the council should be collected.

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| (c) | Entertainment tax was levied on the information provided by the owner at an entertainment concert. However, the council had not identified a method to verify the accuracy of the actual number of tickets sold at that concert. | According to a phone call received by the Secretary about a concert held on an office holiday, the relevant work was observed and the charges were calculated based on the number of tickets sold at that time. | Methods should be developed accurately identify income. |
| (d) | Rs. 790,780 was to be charged from 03 water projects as at 31 December 2022 and there was a balance of Rs. 483,330, which was more than 01 year old, in that balance | Red bills have been sent for arrears above Rs. 1500. Action will be taken to negotiate with customers. | The income to be received to the council should be collected. |
| (e) | Although Rs. 11,189,389 was spent for 09 employees and 06 vehicles and machinery to dispose of 1080 metric tons of solid waste in the year under review, the waste was not disposed in an environmentally friendly manner. | Arrangements are being made to obtain a suitable land for dispose of garbage in an environmentally friendly manner. | Land acquisition should be expedited. |

3.3 Assets Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Fixed assets registers for land, buildings and motor vehicles amounting to Rs. 76,451,331 were not prepared.	It will be corrected.	Fixed assets registers should be prepared.
(b) The boundaries of 08 out of the 10 cemeteries owned by the council have not been settled and no steps have been taken to get the ownership of the remaining 34 cemeteries. Because of this, there was a risk of unauthorized use of the land.	Further work is being done to settle the rest of the cemeteries.	Action should be taken to ensure the existence and security of assets.
(c) 07 Lands of 03 acres 02 roods 10 perches enjoyed by the council and the ownership of Thungama week fair land of unknown extent had not been taken over and accounted.	Action is being taken to account.	Action should be taken to ensure the existence and security of assets.

3.4 Utilization of Vehicles

Audit Observation -----	Comments of the Council -----	Recommendation -----
04 vehicles not in running condition and 02 machinery were not used.	The subject officers were informed to carry out these activities promptly.	Should be followed the Assets Management Circular No. 05/2020.

3.5 Contract Administration

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Rs. 364,800 had been paid without obtaining the quality inspection reports related to 8,000 block stones applied to the entrance to the playground of Muladiyawala College. Also, the sample for the quality test of the concrete cubes was taken on a date after the completion of the work. Therefore, the validity of the quality inspection report was disputed. Also, Rs. 26,304 was paid for uncompleted work.	Although blocks of 12 and 11 stones were sent for testing in 2 occasions, that the second inspection report has not been filed and the excess amount paid will be recovered from the retention amount.	Quality inspection reports should be obtained as required and overpayments should be recovered.
(b) An extra Rs. 368,657 was paid for soil transportation and soil laying, levelling, and compaction for the renovation of the Kawanthissa stadium.	No overpayments have been made.	Overpayments should be refunded.
(c) Rs. 15,777 was overpaid for one work subject during the development of Kalagahawela third lane. Also, the bills for the provisional sum of Rs. 78,286 were not submitted to the audit.	The rates are calculated by the Ministry of Rural Road Development. That there are no such bills in the file due to all the bills are addressed to the Rural Roads Development Authority.	Overpayments should be recovered and copies of all bills related to the industry should be filed.
(d) Although Rs. 30,856 had been paid for the quality test of concrete applied to Kumbugodaara Pubudu Mawatha, the report was not received. Although Rs. 10,000 was paid for its name plate, the name plate was not installed.	A copy of the report will be procured by the ministry. The amount paid to the name plate is recovered from the deductions.	A copy of the quality inspection report should be obtained and the amount paid for uncompleted work should be refunded.