

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pelmadulla 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 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 Pelmadulla 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 except observation (g) in paragraph 1.6. of this report.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Receivable investment interest of Rs. 47,742 was under accounted.	That will be corrected in next year.	This should be corrected.
(b) The investment account indicated an excess of Rs. 81,134 due to a debit entry to correct a wrong debit entry of the investment account in the year 2021.	It will be corrected during the preparation on the accounts of next year.	-Do-
(c) Accounting for court fines and stamp duty on a cash basis was not specified in the accounting policies. But, there were outstanding balances of Rs. 12,263,588 in the court fines and stamp duty accounts at the end of the year 2022.	It will be corrected during the preparation on the accounts of next year.	-Do-
(d) Due to capital expenditure of Rs. 205,880 was accounted as operating expenditure, operating expenditure had increased and capital expenditure had decreased.	It will be corrected during the preparation on the accounts of next year.	-Do-
(e) Employees' provident funds of Rs. 67,557 were not accounted.	Payment from the accumulated fund is legally compliance.	-Do-
(f) Due to erroneous double entry, the income contribution account and machinery account were overstated by Rs. 941,931 in the capital input.	Note to be corrected.	-Do-
(g) The opposite entry relating to Rs. 1,316,634 credited and Rs. 362,131 debited to the accumulated fund were not accounted.	That such cases will not be occurred in future.	-Do-
(h) There was a difference of Rs. 16,807,276 between the balance according to the financial statements and the balance according to the source documents at the end of the year 2022 in relation to 04 accounting subjects.	These differences have been come from long period and it will be corrected in future.	The reasons for the difference should be identified and resolved.

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. 12,539,155 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 14,019,656.

2.2 Financial Control

Preparation of the Bank Reconciliations

The following observations are made.

Audit Observation -----	Comments of the Council -----	Recommendation -----
Although the banked amount of Rs. 29,963 in the years 2003 and 2004 were not credited to the bank account, no action was taken against the officers involved for that. Also, Rs. 653,192 that were credited to the bank and Rs. 109,561 that were debited to the bank between 1999-2009 were not identified and settled.	Due to the lack of information related to this period, it has not been possible to resolve the issue.	Action should be taken for immediate settlement.

2.3 Revenue Administration

2.3.1 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	<u>2022</u>				<u>2021</u>			
	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	6,969,060	6,898,956	8,375,701	6,997,407	7,077,060	6,578,917	4,779,073	8,440,141
Rentals	3,332,640	2,578,415	2,521,265	1,559,859	5,251,342	3,618,440	2,719,782	1,758,897
License fee	1,041,000	1,901,782	1,901,782	-	1,016,000	795,065	795,065	111,747
Other income	<u>6,644,000</u>	<u>6,871,030</u>	<u>6,791,304</u>	<u>-</u>	<u>5,468,500</u>	<u>8,048,513</u>	<u>8,091,495</u>	<u>-</u>
	<u>17,986,700</u>	<u>18,250,183</u>	<u>19,590,052</u>	<u>8,557,266</u>	<u>18,812,902</u>	<u>19,040,935</u>	<u>16,385,415</u>	<u>10,310,785</u>

2.3.2 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 an outstanding assessment balance of Rs. 141,879 which was older than 03 years and an outstanding acreage tax balance of Rs. 91,847 as at 31 December 2022. Also, 06 institutions had lost an income of Rs. 47,700 during the year under review due to non-obtainment of environmental permits.	That the property of those who do not pay the assessment tax will be prohibited and they will try to levy the acre tax. That the information required to get the licenses has not been submitted despite the awareness.	Should be collected the arrears of income.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The contribution to the provident fund was not paid for 06 employees on rental basis between the years 2020-2022.	Action is being taken to collect the arrears and send.	Should be followed the Employees' Provident Fund Act No. 15 of 1958.
(b) A baler machine received in August 2022 for solid waste processing has been lying idle since that date due to non-availability of three-phase power supply.	That provision will be made and facilities will be provided to utilize the machine.	Action should be taken to use the machine.
(c) Statements of assets and liabilities have not been obtained from 32 members elected in the 2018 local Government election till November 2022.	That all members were informed to provide statements of assets and liabilities.	Should be followed the Assets and Liabilities Declaration Act.
(d) There was a loan balance of Rs. 151,255 more than 10 years old to be charged from 19 officers.	04 Balances are charged from guarantors, Approval has been sought to the Governor for cut-off Rs. 140,632.	Arrangements should be made to recover outstanding loan balances.

3.2 Assets Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
Ground rent payment was not made since the year 2006 by a lessee who acquired a plot of land near Pelmadulla week fair, sub-leased it contrary to the agreement, enjoyed a larger portion of the land than was given, constructed a large building contrary to the approved plan without the approval of the Minister in charge, but the council had not taken any action against any of them.	That a notice to quit has been issued by now.	Legal action should be taken against breach of contract terms.

3.3 Utilization of Vehicles

Audit Observation -----	Comments of the Council -----	Recommendation -----
No action was taken to seize or return the ownership of 05 vehicles which were not owned by the Council.	A programme to transfer ownership of vehicles given to Local Authorities will be implemented in future.	Should be followed the provisions of Assets Management Circular No. 02/2017.