

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rathnapura 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 Rathnapura 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) As no adjustments were made for stamp duty and court fines under billing of Rs. 22,412,447 and over billing of Rs. 13,789,042, the accumulated fund was indicated to be lower by Rs. 8,623,405.	That will be corrected in next year.	This should be corrected.
(b) Accrued expenses relating to the year under review amounting to Rs. 137,008 were not accounted.	That will be corrected in next year.	This should be corrected.
(c) The cost of non-current assets disposed during the year under review had not been removed from those assets accounts.	That will be corrected in next year.	This should be corrected.
(d) There was a difference of Rs. 5,542,498 between the balances as per financial statements and the balances as per source documents in 06 accounting subjects at the end of the year under review.	These long term differences are identified and corrected.	The reasons for the difference should be identified and solved.

1.6.2 Lack of Written Evidences for Audit

Subject -----	Comments of the Council -----	Recommendation -----
Detailed schedules and balance confirmations were not submitted for 12 accounting subjects totaling Rs. 94,071,961.	The assets will be assessed and further work will be done after obtaining advices related to the updating of the accounts.	Detailed schedules should be prepared.

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. 10,425,476 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 13,402,031.

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	2,539,784	1,279,385	1,274,251	66,110	2,054,234	2,761,069	2,754,211	62,532
Rentals	760,000	52,145	52,145	-	610,300	147,400	147,400	-
License fee	1,672,200	1,112,750	1,112,750	-	1,713,950	939,325	939,325	-
Other income	<u>2,928,000</u>	<u>2,083,795</u>	<u>2,089,586</u>	-	<u>3,545,000</u>	<u>2,455,720</u>	<u>2,450,270</u>	<u>5,791</u>
	<u>7,899,984</u>	<u>4,528,075</u>	<u>4,528,732</u>	<u>66,110</u>	<u>7,923,484</u>	<u>6,303,514</u>	<u>6,291,206</u>	<u>68,323</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
Rs. 28,374 acre taxes more than 03 years old and Rs. 258,000 three-wheeler charges more than 04 years old were not collected.	Acre tax arrears are being recovered and that only active three-wheeler members have paid membership fees.	Arrears of revenue should be collected.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Plot plans had been approved for 03 land auctions without a contract as 01 percent of the value of land sold in plots would be received from the seller to the council. Also, information related to the sale of land was obtained from the Land Registration Office and the fees to be charged had not been determined.	That deficiency will be overcome by entering into a contract in future and that the information about the currently sold lands will be collected and the charges will be collected.	The revenue to be charged to the council should be collected.

- (b) Although about 09 tons of solid waste was disposed annually within the council area, the perishable waste was collected and handed over to the garbage yard of the Rathnapura Municipal Council due to the council had not a formal waste management system.
- A land is identified for dumping the collected perishable waste and steps will be taken to solve this problem in future.
- Sold waste management programme should be planned and implemented.

3.2 Un-economical Transactions

Audit Observation -----	Comments of the Council -----	Recommendation -----
Although the treasury circulars had severely limited public expenditure, Rs. 350,000 had been spent to conduct a residential training programme at a Koggala resort. In that payment, Rs. 142,500 was wrongly paid for food and accommodation for 19 persons.	That the relevant payments will be checked and instructions will be taken from the Local Government Commissioner to take further action to recover the wrongful payments from the responsible persons.	Should be act as per the circular instructions.

3.3 Identified Losses

Audit Observation -----	Comments of the Council -----	Recommendation -----
According to the judgments of the cases assigned by the council against the construction of a road through a private land in the year 2006, the plaintiff was given back the clear enjoyment of the said land and the council had to pay Rs. 479,505 in the year 2022 as compensation, court fees and lawyer's charges.	According to the lawsuit, final notices have been sent to collect the payable money from the responsible persons and if the relevant money is not paid within the given period, legal proceedings are expected to be carried out.	The responsible parties should be identified and the relevant money should be recovered.

3.4 Vehicle Control

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The disposal of 08 vehicles and 04 tractor-tailors, which were not in running condition, was not completed until December 2022.	It is proposed to re-tender as the requests have not been submitted even though the vehicles identified to be misused have been tendered.	Action should be taken as per the Assets Management Circular No. 05/2020.
(b) A report of a qualified Mechanical Engineer was not obtained for a vehicle repair expenditure of Rs. 972,700.	The repair was done by the relevant institute itself and it was not referred back to the Mechanical Engineer.	Action should be taken as per the Public Administration Circular No. 30/2016.

- | | | | |
|-----|--|---|---|
| (c) | According to fuel orders, as 120 liters of fuel used to a vehicle on 03 occasions exceeded its tank capacity, Rs. 35,053 spent for that and 30 liters of petrol worth Rs. 12,600 were issued for a diesel cab were incorrect payments. | That the Chairman has arranged to maintain an oil reserve for the Chairman's official vehicle and that the amount spent on the 30 liters of petrol will be recovered. | Action should be taken to prevent incorrect payments. |
| (d) | Rs. 87,545 had been overpaid for a cab taken on hire basis by the Chairman in the years 2021 and 2022 without procurement system. | They are being taken action to recover the over payments. | Action should be taken to prevent incorrect payments. |