

Malimbada Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Malimbada Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Income and expenditure Account, statement of changing Equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the 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 Malimbada 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 Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Responsibilities for the Audit of the 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 Principles 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 Pradeshiya Sabha's financial reporting process.

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 all its income, expenditure, assets and liabilities to enable annual and periodic financial statements.

1.4 Audit Scope (Responsibility of the Auditor 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 exercised 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 its 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 content of the financial statements, including the disclosures, and whether the financial statements represent the underlying 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 it has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha 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) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit observation	Comments of the Sabha	Recommendations
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(a) The Cab belonging to the Sabha amounting to Rs.625,000 have been remove from service however it had not been disposed till the present and its value had not been Capitalized.	Action will be taken to rectify in the future	Should be accounted correctly.
(b) The amount of Rs.1,522,918 spent for the Development of Buildings in the year under review had not been Capitalized.	Action will be taken to rectify in the future	Should be accounted correctly.
(c) Provisions amounting to Rs.134,083 had not been made for the Payable Miscellaneous Expenditure under Miscellaneous Creditors in the year under review	Action will be taken to rectify in the future	Should be accounted correctly.
(d) Creditor Provisions had been made twice for the Payable Expenditure for 02 Projects done by the Council in the preceding year and as such the Creditor balance was overstated by an amount of Rs.834,091.	Action will be taken to rectify in the future	Should be accounted correctly.
(e) Extra Provisions had been made for various Projects done by the Sabha in the preceding year for a payable amount of Rs.907,071.	Action will be taken to rectify in the future	Should be accounted correctly.
(f) An amount of Rs.568,145 had been overstated when capitalizing the Expenditure incurred during the construction of the Galandakuttiya Community Hall in the Preceding year.	Action will be taken to rectify in the future	Should be accounted correctly.
(g) Receivable Stamp fees relevant to the preceding year as at the end of the year under review amounting to Rs.15,511,550 was not accounted under receivable income.	Action will be taken to rectify in the future	Should be accounted correctly.

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| (h) | Provisions had not been made under Creditors as at the end of the year under review for an amount of Rs.316,500 for the 3 per cent Contribution for the Employees Trust Fund to be paid for the casual / Substitute Employees from 2013 to the year under review. | Action will be taken to rectify in the future | Should be accounted correctly. |
| (i) | 29 Inventory Items not in the form of Fixed Assets amounting to Rs.107,040 had been accounted under Property Plant and Equipment. | Action will be taken to rectify in the future | Should be accounted correctly. |

1.6.2 Non reconciled control accounts or records

Audit observation -----	Comments of the Sabha -----	Recommendations -----
There was a difference of Rs.1,027,653 between the balances shown in the relevant Registers / Sub Registers and the balances of 05 accounting items totaling to Rs.348,309,259 included in the financial statements.	It will be rectified in the future.	Action should be taken to rectify the accounts after comparing the differences in the relevant balances.

1.6.3 Lack of Documentary Evidence for Audit

Audit observation -----	Comments of the Sabha -----	Recommendations -----
Due to non-submission of Detailed Schedules and stock registers, 04 accounting items totaling Rs.5,272,465 could not be satisfactorily vouched for during the audit.	Action will be taken to rectify in the future.	Evidence should be presented to confirm the balances given in the Financial Statements.

1.7 Non-Compliance

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

The instances of non-compliance with Laws, Rules, Regulations and Management decisions are given below.

Reference to Laws, Rules and Regulations -----	Non - compliance -----	Comment of the Council -----	Recommendation -----
Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.104(4)	The Final Report had not been presented as according to the F.R.104(4) regarding the damage to the Backhoe loader belonging to the Sabha on 2022.	A request had been sent to the Assistant Commissioner of the Local Government to appoint an Investigation Committee as according to the F.R.104(4)	Action should be taken according to the Regulations.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December amounted to Rs. 8,459,120 as compared with excess of revenue over recurrent expenditure amounted to Rs. 9,740,481 in the preceding year.

2.2 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year is shown below.

Source of Revenue	2022				2021			
	Estimate Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	3,935,700	262,074	304,902	132,894	3,934,500	993,730	942,960	175,722
(ii) Rent	7,647,500	2,883,350	3,481,238	228,401	6,721,000	2,467,485	2,155,375	826,289
(iii) License Fees	907,000	1,239,140	1,337,940	128,200	777,000	991,425	902,425	227,000
(iv) Other revenue	4,626,400	4,223,865	4,518,905	200,432	7,864,400	4,668,375	4,172,903	495,472
	<u>17,116,600</u>	<u>8,608,429</u>	<u>9,642,985</u>	<u>689,927</u>	<u>19,296,900</u>	<u>9,121,015</u>	<u>8,173,663</u>	<u>1,724,483</u>

2.2.2 Performance in Collecting Revenue

Observations regarding the performance in the collection of revenue of the Council are given below.

Audit observation	Comments of the Sabha	Recommendations
(a) The arrears of Assessment as at the beginning of the year under review amounted to Rs.168,919 and as at the end of the year the balance of arrears relevant to 116 Assessment units amounted to Rs.124,545.	Action will be taken to collect the arrears.	Arrears of revenue should be collected as soon as possible.
(b) According to Section 134 of the Pradeshiya Sabha Act No. 15 of 1987, the developed areas of the Council's jurisdiction were identified and published in the Gazette No. 2300 dated 30 September 2022, but at the end of the year under review, the assessment had not been collected from the relevant areas.	Forwarded to the Governor for approval.	Action should be taken according to the Act.

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| (c) | As at the end of the year under review the Sabha owned 43 Shop Rooms and an Arrears amount of Rs.160,650 was to be collected from 14 of the Shop Rooms. A balance of more than Rs.25,000 was to be collected from 03 Shop Rooms. | It is being collected in installments. | Arrears of revenue should be collected as soon as possible. |
| (d) | Action had not been taken to collect an amount of Rs.316,500 from 12 advertising boards displayed within the area of authority of the Sabha even as of the end of the year under review. | Legal action have been taken to collect the arrears of advertising board Fees. | Arrears of revenue should be collected as soon as possible. |
| (e) | Court Fines and Stamp Duties to be collected from the Chief Secretary of the Provincial Council as at 31 December of the year under review amounted to Rs.723,635 and Rs.36,086,509. | Action will be taken to collect in the future as soon as possible. | Arrears of revenue should be collected as soon as possible. |

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 by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit observation -----	Comments of the Sabha -----	Recommendations -----
Sabha employees had been used for the separation of Garbage as the accumulated Garbage within the area of authority of the council was collected without categorizing as Degradable and Non-Degradable and an environmentally friendly method of disposal was not used for the disposal of Garbage.	A method such as Sanitary Landfill is currently being experimented and a Waste Incinerator had been requested for the destruction of Polythene.	A formal waste management plan should be implemented.

3.2 Management Inefficiencies

Audit observation -----	Comments of the Sabha -----	Recommendations -----
A Surcharge amount of Rs.376,930 had to be paid by the Sabha as the Contribution of 3% to be Credited to the Employees Trust Fund for the casual / Substitute Employees of the Sabha had not been paid properly from the time period of August 2013 to August 2022.	Action is being taken to recover the Surcharge paid by the Council.	Contribution should be paid properly and action should be taken according to the F.R.156 regarding the Loss.

3.3 Operational Inefficiencies

Audit observation -----	Comments of the Sabha -----	Recommendations -----
(a) An expenditure amounting to Rs.1,022,750 spent for the purchase of Electrical Equipment for the maintenance of Street Lamps had not been reimbursed as Street Lamps were not installed according to the Circular of the Secretary of Ministry of Electricity and Energy No.PR/01/01 dated 17 August 2010.	The Electricity board had been informed that the payment had been stopped since there are no provisions.	Action should be taken according to the Circular.
(b) Action had not been taken to formalize or remove as according to 02 nd Schedule of the Gazette No. 2235/54 dated 08 July 2021 with the Orders / Regulations of the urban Development Authority regarding a Boundary Wall that was constructed in a way that obstructs a Road belonging to the Council without a formal Development Permit.	Action will be taken to formalize or remove the constructions done without formal Development Permit.	Action should be taken according to Gazette Notification.

3.4 Transactions of Extraneous Nature

Audit observation -----	Comments of the Sabha -----	Recommendations -----
Holiday pay amounting to Rs.122,108 had been paid to two Officers for 56 days in the year under review without conforming the Arrival and Departure using the Fingerprint Machine as against Paragraph 02 (iv) of the Public Administration Circular No.09/2009 dated 16 April 2009.	The Fingerprint Machine was not used during the time period of the Covid 19 Pandemic.	Action should be taken according to the Circular.

3.5 Issues in Contract Administration

Audit observation -----	Comments of the Sabha -----	Recommendations -----
The progress of construction of 04 works estimated to be Rs.17,804,377 initiated under the Pradeshiya Sabha Infrastructure Development Program 2021 of the State Ministry of Local Government and Provincial Council was halted after finishing work amounting to Rs.3,626,711 and the constructed parts are left to decay and even the objectives that were expected to be accomplished through the initiation of Construction could not be accomplished.	Provisions were requested from the Ministry of Public Administration, Home Affairs, Provincial Council and Local Government.	Projects should be initiated as soon as possible.

3.6 Human Resource Management

Audit observation

An amount of Rs.1,246,076 had been spent by the Council Fund in the year under review for two work Field laborer of the Council and one Health laborer assigned with Office work and other work without giving them work relevant to their position.

Comments of the Sabha

Duty of the vacant positions was assigned.

Recommendations

Duty relevant to the position should be assigned.