

Aranayake Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Aranayake 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 for the year then ended and a summary of significant accounting policies and 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 Subsection 172(1) of the Pradeshiya Sabhas Act, No. 15 of 1987 and provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Aranayake Pradeshiya Sabha as at 31 December 2022, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 (SLAuS). 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 Sub-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 to be prepared of the Sabha.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements presented by the Pradeshiya Sabha are consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (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	Comment of the Sabha	Recommendation
(a) Being paid the incentives amounted to Rs.298,863 relevant to the year under review, it had been stated again as payable .	It will be corrected	Should be brought to accounts accurately
(b) Repayment in the year under review of Special Advances amounting to Rs.12,000 which was over charged in the year 2021 , had been brought to accounts again as a balance receivable.	It was computerized by a mistake and it has been corrected.	Should be brought to accounts accurately
(c) The value of 08 machines and machineries which was a sum of Rs.40,083,712 according to the Register of Fixed Assets , had been understated by Rs.6,183,967 in financial statements.	One vehicle had been given for Mawanella Pradeshiya Sabha and the remainder has been brought to accounts.	Should be brought to accounts accurately
(d) A sum of Rs.32,021 over stated and a sum of Rs.6,000 under stated in accounts for the expenditure payable for the year under review.	Creditors provisions has been allocated to an approximate value due to difficult to assess.	Should be brought to accounts accurately
(e) A building valued at Rs.49,913,700 and 23 lands which the value has not been assessed had not been brought to accounts.	Will be brought to accounts by assessing those lands.	Should be brought to accounts accurately

1.6.2 Non-reconciled Control Accounts

Audit Observation	Comment of the Sabha	Recommendation
A difference of Rs. 807,219 was observed in reconciling the balance of 04 items on lands and buildings and current assets according to the financial statements with the subsidiary documents of each items of accounts..	Agreed	The balances mentioned in financial statements should be reconciled with subsidiary documents.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Schedules were not presented for 02 items of accounts of fixed deposits totaled of Rs.9,389,129.	Not commented	Written evidence should be submitted.

1.7 Non-compliances

Non-compliances with Laws, Rules, Regulations, and Management Decisions

Instances of Non-compliances with Laws, Rules, Regulations, and Management Decisions are as follows.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Sabha	Recommendation
Regulation 571 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	A number of 39 deposits more than 02 years valued at Rs. 628,194 relevant to the period from 2011 to 2021 had not been settled.	Not commented	Action should be taken interms of Financial Regulations.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 3,733,416 as at 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.10,879,874.

2.2 Financial Control

Audit Observation	Comment of the Sabha	Recommendation
Action had not been taken to earn income by utilizing the balance of Rs.8,619,147 existed in a bank account even in a short-term investment.	Even though forwarded to the approval for fixed deposits ,it has not been approved by the general council.	Income should be earned by investments.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

According to the information presented, the information on estimated revenue, billed revenue, collected revenue and revenue in arrears relevant to the year under review and the preceding year are given below.

Source of Revenue	2022			2021				
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December
	Rs	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	₹.	₹.	₹.	₹.	₹.	₹.	₹.	₹.
Rates and Taxes	2,478,270	2,787,555	2,665,911	326,136	2,468,000	2,579,358	2,742,496	288,608
Rents	4,632,500	3,376,427	3,375,962	147,441	2,602,200	3,422,025	3,022,628	456,755
License Fees	408,564		554,910	9,000	430,100	470,662	470,662	-
other Income	<u>3,101,200</u>	<u>4,483,650</u>	<u>3,707,597</u>	<u>61,904</u>	<u>2,639,000</u>	<u>3,495,917</u>	<u>3,819,322</u>	-
Total	<u>10,620,534</u>	<u>11,208,542</u>	<u>10,304,380</u>	<u>544,481</u>	<u>8,139,300</u>	<u>9,967,962</u>	<u>10,055,108</u>	<u>745,363</u>

2.3.2 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
a) A sum of Rs.391,475 was due from the items of revenue such as rates, acreage tax and stall rents as at 31 December 2022 . That value included a balance of Rs.164,504 over due between 01 year to 05 years , and another balance of Rs.152,989 over due for more than 05 years .	Outstanding monies will be recovered in due course	The outstanding revenue should be recovered immediately.
(b) A sum of Rs.107,686 had not been charged from 35 hoardings for the year under review. As such, due to the revenue earned from hoardings was not billed, the total revenue to be receivable within the year had not been brought to accounts.	Not commented	Should be brought to accounts accurately.

3. Operating Review
3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) In terms of the paragraph 3.7 of the Circular No.11/2010 of Local Authorities Rehabilitation Circular Guidelines, the Backhoe machines belonging to the Local Authorities should not be given on free of charge. However, contrary to that, due to the machines given on free of charge for 291 hours , an income approximately of Rs.1,309,500 had been lost to the Sabha.	Action will be taken to deploy the backhoe machine only on the request of the subject officers henceforth and repairing of play grounds, roads and religious places in such number of hours , requests will be obtained in writing in the future , action will be taken to obtain such money from the residents of the area for the places such as play grounds, and temples.	Action should be taken in terms of the Circular.
(b) Information on the 06 cases files against the Sabha had not been revealed in financial statements.	Not commented	Necessary reveals should be done.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Valuation of property which should be carried out once in 5 years had not been done after the year 2011.	Valuation activities has been commenced.	Revenue should be earned correctly
(b) Certificates of Conformity had been issued only for 24 applications out of 253, which were approved in the period s between 2017-2022 for the construction of buildings.	Not commented	Survey should be done for the buildings constructed.
(c) Waste had been disposed by obtaining a land on annual lease basis of Rs.880,000 , without disposing waste into the land which was obtained for solid waste management , due to the objections made by residents of the area. Even though a sum of Rs.6,746,686 had been spent for waste management in the year 2022, the Sabha had failed to earn income by producing fertilizers out of that.	Estimates and project report will be prepared for compost project.	Disposal of waste should be done properly.

- (d) Balances amounting to Rs.579,034 older than 1 year to 4 years were existed within the miscellaneous creditors balance of Rs,5,235846 at the end of the year under review, Relief has been requested for the payment and money received for the payment of industrial creditors by the Provincial Council. Creditors balance should be settled.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) Action had not been taken to vest or hand over the ownership of 02 trailers amounted to Rs.518,000 which are not belonging to the Sabha. As such, the ownership of 05 vehicles valued at Rs.5,542,128 belonging to the Sabha, had not been vested legally.	Letters has been forwarded to vest the vehicles.	Ownership of assets should be settled.
(b) Number of 03 cemeteries belonging to the Sabha had not been identified as the property of the Sabha.	Not commented	Ownership of assets should be settled
(c) Number of 03 tractors and 02 trailers valued at Rs.3,505,000 belonging to the Sabha were remained idle from a period between 2 years to 10 years.	The same vehicles will be auctioned.	Assets should not be kept in un used manner.

3.4 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
8 vacancies were existed from the 83 approved cadre of the Sabha. As such, labourers had been deployed for the duties of revenue collection, driver and health administration posts.	Agreed	Vacancies should be filled as per the requirement.