

Ruwanwella Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Ruwanwella 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 Ruwanwella 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.

- 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.
- 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) As at the end of the year under review, there existed a difference of Rs. 4,206,770 between the balance of non-current assets and the balance of Revenue Contribution to Capital Input Account.	The difference will be looked into, and corrective measures will be taken.	Accuracy should be ensured in preparing accounts.
(b) The salary reimbursed by the Department of Local Authorities of the Province for December 2022, had been overstated by Rs. 276,550 in the financial statements.	Acknowledged.	- Do.
(c) The interest on a fixed deposit account for the year under review amounting to Rs. 1,713,973, had been debited to the accumulated fund instead of being accounted for as a revenue.	As the fixed deposit account had been closed, the total of the interest amount had been credited to the investment account by debiting the cash book.	Accuracy should be ensured in preparing accounts.
(d) The sum of Rs. 1,409,884, being the interest on fixed deposits, had been understated in the cash book whilst being overstated in the revenue debtors fixed deposit interest account.	- Do.	- Do.
(e) Underallocations on audit fees for the year 2021 amounting to Rs. 119,200, had been debited against the expenditure instead of being adjusted	Adjustments will be made through the final account of the year 2023.	- Do.

to the accumulated fund in the year under review.

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| (f) | Expenses of capital nature totalling Rs. 243,000 had been brought to accounts under recurrent expenses. | In case of being erroneous, those expenses will be considered as capital expenses henceforth. | - Do. |
| (g) | No allocations had been made for the sum of Rs. 59,450 paid in the year 2023 in respect of the year under review. | Allocations will be made on that payment in due course. | - Do. |
| (h) | The sum of Rs. 50,000 paid as legal fees, had been accounted for under foreign tour expenses. | It will not be so done in the future. | - Do. |
| (i) | A stock of Ayurvedic drugs worth Rs. 173,714 had not been shown in the statement of financial position. | Acknowledged. | - Do. |
| (j) | An aid receivable as at 31 December 2022, had been understated by Rs.5,409,897 in the financial statements. | Acknowledged | - Do. |

1.6.2 Non-reconciled Control Account

Audit Observation	Comment of the Sabha	Recommendation
a) A difference of Rs. 4,978,484 existed between the balances shown in the financial statements and reports of the survey on articles relating to 03 account balances as at the end of the year under review.	Corrective measures will be taken in the year 2023.	Non-reconciliations should be corrected.
b) The comparison of balances relating to 07 items of accounts shown in the financial statements with supporting documents, revealed a difference of Rs. 17,534,459 as at the end of the year under review.	Correct as per information furnished on final accounts with respect to 04 items of accounts. The other differences are acknowledged.	- Do.

1.6.3 Transactions without Adequate Authority

Observation	Comment of the Sabha	Recommendation
The payment of Rs. 30,000 made to a Member for following a course at a University, contradicted to Section 132 of the Pradeshiya Sabha Act.	The payment had been made following a decision taken by the general assembly.	The Act should be followed.

1.6.4 Lack of Documentary Evidence for Audit

Observation	Comment of the Sabha	Recommendation
No schedules whatsoever had been made available to verify the accuracy of 02 items of fixed assets the value of which totaled Rs. 21,412,889.	Acknowledged	Schedules should be made available.

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 given below.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 571.	Deposits valued at Rs. 4,020,966 had been retained without being prepared for a period of 02-09 years.	Deposits will be credited to the revenue. The deposits not to be withdrawn will be credited to the Government revenue.	The Financial Regulations should be followed.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure for the year ended as at 31 December 2022, amounted to Rs. 12,203,932 as compared to the corresponding revenue for the preceding year in excess of the recurrent expenditure amounting to Rs. 17,467,974.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Information on the estimated revenue, billed revenue, collected revenue, and outstanding revenue relating to the year under review and the preceding year, is given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	5,990,289	8,467,619	9,165,795	4,586,367	6,266,137	6,074,189	4,932,161	5,151,385
Lease Rets	18,738,663	21,300,685	24,054,670	6,847,788	17,146,200	18,582,399	19,361,933	10,771,924
License Fees	695,050	691,225	633,000	-	890,050	653,516	676,516	-
Other Income	<u>3,219,578</u>	<u>13,788,054</u>	<u>8,877,358</u>	<u>8,979,131</u>	<u>13,206,010</u>	<u>7,726,643</u>	<u>7,726,643</u>	<u>4,005,185</u>
	<u>28,643,580</u>	<u>44,247,583</u>	<u>42,730,823</u>	<u>20,413,286</u>	<u>37,508,397</u>	<u>33,036,747</u>	<u>32,697,253</u>	<u>19,928,494</u>

2.2.1 Performance in Collecting Revenue

Observation

A sum of Rs. 12,132,855 remained receivable as at 31 December 2022 from the items of revenue such as, rates, acreage tax, stall rents, and other revenue. The said balance comprised a sum of Rs. 7,488,183 continued to exist over 01 – 05 years and a sum of Rs. 4,113,342 older than 05 years.

Comment of the Sabha

Necessary action is being taken to minimize the outstanding amount.

Recommendation

Outstanding revenue should be recovered without delay.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
a) Due to failure in assessing the properties in an up-to-date manner, the value of 10 lands in extent of 06 acres, and 21 perches had been shown in the accounts as Rs. 68,947.	An assessment will be done in the year 2023.	Properties should be assessed and brought to accounts.
b) Fines amounting to Rs. 28,105 had been paid due to delay in obtaining vehicle revenue licenses.	Those monies will be recovered from the parties responsible.	Should be recovered from the parties responsible.
c) The value of 07 lands had not been brought to accounts after being assessed.	Further action will be taken after surveying.	Accuracy should be ensured in accounting.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
a) Contrary to instructions of the Commissioner of Local Authorities, the minimum bid value for meat and fish stalls had not been assessed through the Government Valuer once per three years.	Action will be taken to obtain the assessment of the Government Valuer.	Instructions of Circulars should be followed.
b) Agreements had not been entered into for 40 trade stalls for the year 2022.	Not replied properly.	It is necessary to enter into agreements.
c) A number of 940 new street lamps had been fixed during 2020-2022 without being approved and compliance with instructions of the Secretary to the Ministry of Power and Energy.	Our institution had not been aware in that connection.	Street lamps should be fixed under proper approval.
d) Sixty three of 78 complaints received during 2014-2022 relating to unauthorized constructions, had not been solved.	The matter will be looked into and action will be taken.	Prompt action should be taken on unauthorized constructions.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
a) There existed 94 lands and 170 wells belonging to the Sabha as per the financial statements of the year 2021. However, according to the survey on assets conducted in the year 2022, forty five lands and 13 wells only had been identified as assets of the Sabha	A survey on assets will be conducted in the year 2023.	Survey on assets should be conducted.
b) Necessary action had not been taken with respect to 07 vehicles without registration numbers & remaining unusable and 05 scrap vehicles valued at Rs. 2,104,027.	Disposal process is in progress at present.	Should either be repaired or disposed of.

3.4 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
a) There existed 31 vacancies and 06 excess posts in the approved cadre of the Sabha being 133. 23 posts in the approved cadre had been approved as personal to the holder basis.	Although requests had been made as per Financial Regulation 71 to amend the approved cadre, approval has not been received in that connection.	The approved vacancies should be filled, and the excess employees should be attached productively.
b) The loan balance of Rs. 342,211 receivable from 04 officers, remained due over a period of 03 – 24 years.	Action will be taken for recovery of the loan balances.	Outstanding loan balances should be recovered without delay.

3.5 Deficiencies in Contract Administration

Observation	Comment of the Sabha	Recommendation
As repairing of the central library, Ruwanwella, had not been completed, the equipment worth Rs. 1,173,419 granted for digitalizing the library, remained unused.	The agreement relating to this work has been cancelled; and, an estimate has been prepared anew and presented to the assisting committee.	Assets should not be allowed to be unused.