

Baddegama Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Baddegama Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Operations, Statement of changes in net assets, 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 Baddegama 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 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 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 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	Recommendation
(a) The purchases of library books during the year under review, had been over stated Rs.270,893.	Will be corrected in future.	Should be accounted correctly.
(b) A creditor provision of Rs.9,815,376 had been made for 52 constructions work whose bills had not been submitted as at 31 December of the year under review.	- do -	- do -
(c) The sum of Rs.19,786,853 receivable to the Sabha from 26 shop lease holders had not been accounted as at 31 December of the year under review,	- do -	- do -
(d) The capital expenditure of Rs.24,600,731 incurred during the year under review in the lands owned by the Sabha, was not capitalized under land and buildings.	Will be corrected in future.	Should be accounted correctly.
(e) License fees amounting to Rs.673,580 which should have been received as at 31 December of the year under review had not been accounted as income.	- do -	- do -
(f) An employee loan balance of Rs.258,375 received from the pension department last year was credited to the excess and deficiency account instead of being credited	- do -	- do -

to the employee loan account while settling the deposit account.

- (g) The value of two items of Plant Machinery and Equipment value Rs.298,800 purchased during the year under review had not been capitalized. - do - - do -

1.6.2 Non reconciled control account or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs. 190,561 in between the balances related to 02 accounting items included in the financial statements and the balances shown in the related utility registers as at 31 December.	Will be corrected in future.	Accounts should be corrected by reconciling the differences.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comments of the Sabha	Recommendation
(a) The Section 23 and 24 of the Pradeshiya Sabha Act No. 15 of 1987	A Road Inventory Register, containing details of Sabha roads, had not been maintained.	The road inventory has not been updated.	Action should be taken according to the Act.
(b) The Finance Regulations 104 of the Democratic Socialist Republic of Sri Lanka.	The action had not been taken in relation to accidents of 02 vehicles	Accepted the audit observation	Action should be taken according to the Financial Regulation.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 76,522,030 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 23,899,888 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated 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)
Rates and Tax	5,191,041	4,810,368	4,402,458	9,148,681	5,900,000	4,997,592	5,208,815	8,740,771
Rent	46,765,970	51,909,200	51,995,395	220,211	21,913,000	5,459,415	5,498,815	306,406
License Fees	2,200,362	761,565	761,565	-	567,360	344,026	363,526	-
Other revenue	13,629,580	21,940,883	20,188,409	2,025,350	9,751,350	11,977,830	11,724,957	272,876
	<u>67,786,953</u>	<u>79,422,016</u>	<u>77,347,827</u>	<u>11,394,242</u>	<u>38,131,710</u>	<u>22,778,863</u>	<u>22,796,113</u>	<u>9,320,053</u>

2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below

Audit Observation	Comment of the Sabha	Recommendation
(a) The total outstanding Rates and Tax was Rs. 8,740,771 as at 01 January of the year under review, and it was Rs. 9,148,681 at the end of the year under review.	The observation is accepted.	The arrears of income should be recovered as soon as possible.
(b) Although the period for payment of key money of 14 shops owned by the Sabha had ended on 25 November 2022, the key money amounting to Rs. 11,923,729 had not been collected as at 31 December 2022.	The observation is accepted.	The action should be taken according to the Circular.
(c) The court fines amounting to Rs.956,775 and stamp fees amounting to Rs.115,106,786 should have been received from the Chief Secretary of the Provincial Council as at 31 December of the year under review.	The observation is accepted.	The arrears of income should be recovered as soon as possible.

3. Operational Review

3.1 Solid Waste Management

Audit Observation	Comment of the Sabha	Recommendation
(a) An environmental protection license had not been obtained from the Central Environment Authority for the Sabha's organic fertilizer yard.	The process to obtain the environmental license has been initiated.	License should be obtained.
(b) The ownership of the land of 02 acres, 3 roods, 37.5 perches, on which the organic fertilizer production center was built, had not been acquired.	The action will be taken to acquired.	Arrangements should be made to acquire the ownership of the land.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Since the year 2018, 125 building applications given to the Sabha have not been approved or rejected and no follow-up action has been done.	The letters were sent informing that the relevant files will be closed if the deficiencies are not completed.	The followed up action should be taken in relation to the Building applications.

3.3 Assets Management.

Audit Observation	Comment of the Sabha	Recommendation
(a) 02 cabs value Rs.952,000 belonging to the Sabha had been taken out of running condition for a long time, and the action had not been taken in this regard.	The observation is accepted.	Assets should be used efficiently.
(b) Apart from the procurement process, 1000 CFL bulbs value Rs.830,000 received in the stores were not recorded.	It had been done without calling quotations	Action should be taken according to the Government Procurement Guidelines.

3.4 Delays in projects, activities or capital works

Audit Observation	Comment of the Sabha	Recommendation
Allocations were approved to implement 03 projects valued at Rs.4,250,000 to provide drinking water facilities, however those projects were not fulfilled.	The observations are accepted.	Allocation approved projects should be implemented.

3.5 Contracts Administration

Audit Observation	Comment of the Sabha	Recommendation
Under the abandoned paddy field Reclamation Program 2022, the restoration of canals, over payment of Rs. 387,016 in relation to 06 clay and soil removal work in canals and Rs. 359,464 in relation to 03 aquatic plants and mud removal work, had been made.	The data provided by technical officers is not correct.	A feasibility study should be done before the constructions work is executed, and additional payments should be recovered.

3.6 Human Resources Management

Audit Observation	Comment of the Sabha	Recommendation
Staff loan balances of Rs. 213,457 receivable as at 31 December 2022 had not been collected from 05 officers who retired, deceased and vacated their post after serving in the Sabha.	Not commented.	The action should be made to recover outstanding staff loans.