

Imaduwa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Imaduwa 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 Imaduwa 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.

- 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.
- 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	Comment of the Sabha	Recommendation
(a) The amount of Rs. 76,100 received from the Akuressa Regional Education Office to settle the employee loan balance in the year under review was accounted as employee loan payment.	Will be corrected in future.	Should be accounted properly.
(b) The fixed deposit interest income related to the year under review had been understated by Rs.148,928.	- do -	- do -
(c) 03 construction work which had not completed the work and submitted the bills of during the year under review were accounted as construction work creditor of Rs.1,205,635.	Will be corrected in future.	Should be accounted properly.

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| (d) | Receivable capital assistance amounting to Rs.18,425,080 and industrial creditors amounting to Rs.22,473,223 which had been accounted for in the previous years were accounted for in the year under review. | - do - | - do - |
| (e) | The value of land and buildings purchased during the year under review amounting to Rs.7,821,797, the value of Machines and machinery amounting to Rs.621,794 and the value of Furniture and Fittings amounting to Rs.40,000, had not been capitalized. | - do - | - do - |
| (f) | Recurrent expenditure amounting to Rs.60,050 had been capitalized under motor vehicle and carts. | - do - | - do - |

1.6.2 Non reconciled control account or records

Audit Observation

There was a difference of Rs.68,800,684 between the balances related to 16 accounting items shown in the financial statements as at 31 December of the year under review and the balances shown in the related utility registers and schedules.

Comment of the Sabha

Action will be taken to correct in future

Recommendation

Action should be taken to rectify the accounts after comparing differences.

1.6.3 Lack of Documentary evidence for Audit

Audit Observation

Due to non-submission of detailed schedules required for verification of 09 accounting items totaling to Rs.72,254,050 could not be satisfactorily verified during the audit.

Comment of the Sabha

A report on the relevant balances has been submitted to the Assistant Commissioner of Local Government and the final

Recommendation

The evidences for confirming the account balance should be submitted.

decision has not been received.

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	Comment of the Sabha	Recommendation
(a) The Section 23 and 24 of the Pradeshiya Sabha Act No. 15 of 1987	A road inventory for 113 council roads owned by the Sabha had not been prepared.	The inspection work has been done and the surveying of the remaining roads will be done in the future.	Action should be taken according to the Act.
(b) The Finance Regulations 104 of the Democratic Socialist Republic of Sri Lanka	Initial and final reports had not been prepared regarding 02 vehicle accidents that occurred in the year 2022.	A committee will be appointed and an investigation will be conducted in the future.	The action should be taken according to the Finance Regulation.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs. 6,273,156 as compared with the recurrent expenditure over revenue amounting to Rs. 2,967,416 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 given below

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 Taxes }	2,920,600	4,131,840	4,314,319	2,058,704	1,800,000	2,469,788	2,472,788	2,241,183
Rent	4,411,000	1,889,800	1,889,800	-	4,611,000	1,682,290	1,682,290	-
License Fees }	927,200	1,434,171	1,448,671	100,100	893,970	687,127	687,127	114,600
Other revenue }	6,847,700	6,305,641	6,313,776	299,430	10,910,180	4,254,981	6,629,500	307,565
	15,106,500	13,761,452	13,966,566	2,458,234	18,215,150	9,094,186	11,471,705	2,663,348

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 income was Rs.2,663,348 as at 01 January of the year under review, and it was Rs.2,458,234 at the end of the year under review.	The answers have not been submitted.	The arrears of income should be collected as soon as possible.
(b) Rs.93,480 should have been received from the Chief Secretary of the Provincial Council as at 31 December of the year under review.	The action will be taken to correct in future.	The arrears of income should be collected as soon as possible.
(c) A total key money of Rs. 7,347,724 was to be receivable from 12 shops rooms owned by the council as at 31 December 2022.	Answer had not been given.	The actions should be taken to recover the arrears of key money.

3. Operational Review
3.1 Assets Management

Audit Observation

Although a report was obtained in the year 2018 from the Mechanical engineer of the local government department for the repair of the Isuzu cab of the Sabha, the necessary further work for the repair was not done.

Comment of the Sabha

This work has been temporarily suspended.

Recommendation

Assets should be repaired and put into use.

3.2 Delays in projects activities or capital works

Audit Observation

(a) Although the Sabha had incurred an expenditure of Rs.5,181,800 for the Bogahagoda Weekly fair construction and city development project, the project had not been completed.

Comment of the Sabha

The soil test of the land has been done so far.

Recommendation

The projects should be completed and the expected benefits should be achieved.

(b) Although Rs.2,500,000 had been approved for the construction of weekly fair stalls in Bogahagoda, the project had not been completed.

The contractors were not come forward to execute the project due to commodity price fluctuations in the country.

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