

Ambalanthota Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ambalanthota 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 Accounts, 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 Ambalanthota 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	Comment of the Sabha	Recommendation
(a) The receivable compensation from insurance for a cab accident incurred in the year under review amounting to Rs.6,390,000 had not been accounted.	The action will be taken to correct in the preparation of accounts for the year 2023.	The receivable balances should be accurately identified and accounted.
(b) The Creditors provision for 02 construction work completed in the year under review had been understated by Rs. 2,231,846.	The action will be taken to correct in the preparation of accounts for the year 2023.	The creditor provisions should be properly accounted.
(c) Under The provision had not been made for the debtors for the receivable of purchase of water tanks and frames amounting to Rs. 1,320,000 under the Provincial Specific Development Grants at the end of the year under review.	The action will be taken to correct in the preparation of accounts for the year 2023.	Debtors should be accurately identified and accounted.
(d) Billed Court fines for the year under review by Rs. 1,011,000 and stamp duty income by Rs. 467,000 had been understated in the accounts.	The action will be taken to correct in the preparation of accounts for the year 2023.	Revenues should be recognized and accounted correctly.
(e) The over allocations for court fines and stamp duty in the last year amounting to Rs. 504,312 had not been adjusted for the accumulated fund.	The action will be taken to correct in the preparation of accounts for the year 2023.	Accounts receivable should be accurately identified and accounted.
(f) During the year under review, the salary paid to the permanent staff and Sabha allocation, exceeded Rs. 393,695 was not accounted for as a payable balance.	The action will be taken to correct in the preparation of accounts for the year 2023.	Reimbursement costs should be accurately identified and accounted.
(g) The machinery and equipment purchased in the year under review for Rs. 142,900 had not been accounted.	It will be accounted under machinery and equipment.	Fixed assets should be identified and properly accounted.
(h) The closing stock as at 31 December of the year under review had been understated by Rs. 129,883.	It will be corrected in the future.	Stock should be properly accounted.

1.6.2 Non reconciled control account

Audit Observation	Comment of the Sabh	Recommendation
There was a difference of Rs. 258,507 in between the balances related to 02 accounting items included in the financial statements and the balances shown in the related utility registers/schedules.	The action will be taken to correct in future.	The account should be corrected by reconciling the differences in respective balances.

1.6.3 Lack of Documentary evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to non-submission of required information, 3 accounting items totaling to Rs.3,158,134 could not be checked satisfactorily during the audit.	The Council does not have a detailed sub-register prepared for outstanding balances.	Evidence should be submitted to confirm the account balances shown in the financial statements.

1.7 Non-compliances

1.7.1 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 Pradeshiya Sabha Act No. 15 of 1987 -----	-----	-----	-----
i. Section 126	Under the Section 126 of the Pradeshiya Sabha Act, by-laws should have been enacted to fulfill 30 main matters, however by 31 December 2021, only by-laws had been enacted for 11 matters.	According to the need, other by-laws will be adopted in the future.	Action should be taken in accordance with the Act.
ii. Section134 (2)	The developed areas were not identified in time and revision of the assessment jurisdiction was not undertaken.	The assessment jurisdictions should be amended .	Action should be taken in accordance with the Act.

- (b) The section 20 of the Taxation and Valuation Act No. 30 of 1946
- Although the assessed property should be assessed once in 05 years, assessment tax should be collected, but based on the assessment report of the year 2011 without doing so, assessment tax was collected in the year under review as well.
- That the assessment tax was levied as per the old assessment, as the valuation officers did not come to the Sabha to assess the assessed property.
- Action should be taken in accordance with the Act.
- (c) The Section 3.1 of the Public Administration Circular No. 30/2016 dated 29 December 2016
- The fuel consumption inspection of 25 vehicles in running condition owned by the council had not been done by the date of audit and the period of time for which fuel consumption inspection was not done in 13 vehicles was between 01 to 05 years and the relevant details of the remaining 12 vehicles had not been submitted to the audit.
- The fuel consumption test of these vehicles will be conducted in the future.
- Action should be taken in accordance with the Circular.

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 amounted to Rs. 7,363,800 as compared with the excess of recurrent expenditure over revenue amounting to Rs. 2,412,189 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 chairman, 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 Taxes	5,581,000	5,377,655	6,696,803	3,857,460	4,962,100	4,919,474	4,187,533	5,176,608
Rent	254,271,000	12,493,686	14,023,430	8,748,833	18,037,500	18,436,335	11,320,957	10,278,577
License Fees	2,778,000	2,023,292	2,448,562	760,245	2,750,200	1,970,965	1,370,510	1,185,515
Other revenue	18,543,000	8,486,845	8,552,093	549,911	31,503,290	7,199,280	6,616,896	615,159
Total	281,173,000	28,381,478	31,720,888	13,916,449	57,253,090	32,526,054	23,495,896	17,255,859

2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the Sabha.

Audit Observation	Comment of the Sabha	Recommendation
(a) The assessment tax receivable as at 31 December of the year under review amounting to Rs. 3,574,690 had not been recovered as per the section 158 (1) of the Pradeshiya Sabha Act.	The arrears will be recovered in future.	Arrears of income should be collected as soon as possible.
(b) Receivable shop room rents and fines from 131 shops owned by the council amounting to Rs. 1,234,810 had not been recovered in terms of Section 159 (1) of the Pradeshiya Sabha Act as at 31 December of the year under review.	Rs. 102,435 had been collected and Rs. 64,965 has been written off with the approval of the Governor and the balance will be recovered.	Arrears of income should be collected as soon as possible.
(c) Hungama Public Market Shops had been assessed by the Valuation Department and informed to the Sabha to collect the new assessed rent as per letter No. HT/RP/936 dated 01 April 2019. However the total outstanding shop rent due from 12 shops was Rs. 1,035,000 as at 31 December 2022.	6 out of 12 shops were demolished for maintenance purposes and temporary shops were built and letters were sent to the Valuation department to get an assessment for that and Receivable of Rs. 507,000 from the rest of the shops will be collected by prohibiting the property or taking over the shops.	Assessed rent should be recovered.
(d) As at 31 December of the year under review, from 10 properties leased annually, receivables of Rs. 4,310,998 and regarding the previous 03 years, receivables for tender tax litigations of Rs. 1,427,941, had not been recovered.	On the approval of the Governor Rs. 2,113,708 had been written off and there was no information related to the balance of Rs.1,427,941 due from previous years.	Arrears of income should be collected as soon as possible.
(e) There was a arrears of income receivable from renting the vehicle and tools belong to the Sabha amounting to Rs. 1,775,084 as at 31 December of the year under review.	The action will be taken to recover the arrears of income.	Arrears of income should be collected as soon as possible.

- | | | | |
|-----|--|---|--|
| (f) | The license fee receivable as at 31 December of the year under review, from 78 business units amounting to Rs. 72,750 had not been recovered as per Section 149 of the Pradeshiya Sabha Act. | The legal action will be taken against 49 businesses that have not paid fees. | Arrears of income should be collected as soon as possible. |
| (g) | The receivables from 62 institutions amounting to Rs. 687,495 had not been recovered from the advertising board fees as at 31 December of the year under review. | The legal action will be initiated to recover the arrears. | Arrears of income should be collected as soon as possible. |
| (h) | Fees from services receivable amounting to Rs. 180,095 as at 31 December of the year under review had not been recovered. | The action will be taken to recover the arrears. | Arrears of income should be collected as soon as possible. |
| (i) | Court fines and stamp duty receivable from the Chief Secretary of the Provincial Council as at 31 December of the year under review was Rs.1,874,045 and Rs.19,016,320 . | Proceedings to collect stamp duty and court fines receivables. | Arrangements should be made to collect the arrears. |

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Although the interim lease cannot be done according to the agreement, the council management did not take the necessary action related to the interim lease of 09 shop rooms in Ambalantota market.	If it is confirmed that the interim lease has been granted, the lease agreement will be canceled and the property will be re-tendered.	The action should be taken in accordance with the agreement.
(b) The collection collected by the Revenue Inspector of Hungama Pradeshiya Sabha Sub-Office during the year under review was Rs. 311,470 and the three Revenue Inspectors of the Sabha collected in 03 months of the year 2022 Rs. 177,614 were retained in hand from 04 to 51 days.	The officers were informed that the money collected from the field should be paid to the council on the same day or the next working day.	The action should be taken in accordance with the Financial Regulation.

3.2 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
02 vehicles and machines owned by the council which were not in running condition, had not been repaired or disposed of and there was no information about the time the vehicles were idle. Also, according to the 2021 bord of survey report, 03 vehicles and machines that were supposed to be auctioned had not been auctioned.	According to the decisions of the bord of survey report of the year 2021, 02 tractors and the cab recommended for auction will be auctioned and the remaining vehicles will be repaired.	The vehicles should be repaired and put to use or disposal.

3.3 Delays in fulfilling projects

Audit Observation	Comment of the Sabha	Recommendation
The council management had failed to implement during the year under review 22 development proposals amounting to Rs.422,113,000 included in the budget prepared for the year under review.	These development projects could not be completed due to non-availability of expected revenues.	Budgeted development proposals should be implemented.

3.4 Procurement management

Audit Observation	Comment of the Sabha	Recommendation
According to Section 5.6.1 of the Government Procurement Guidelines 2006, the specifications for the goods or works to be procured should be detailed to the extent necessary to achieve the relevant procurement objective, however 04 types of goods with a total value of Rs.290,275 had been purchased without following above instruction, and the technical evaluation committee had not been appointed and a report had not been obtained regarding purchases amounting to Rs. 344,875 as per the Clause 2.8.4.	The necessary specifications will be mentioned and necessary technical committee recommendations will be procured in the future purchases.	Action should be taken in accordance with Government procurement guideline.

3.5 Deficiencies in contract administration

Audit Observation	Comment of the Sabha	Recommendation
(a) Due to non-completion of compost yard roof and file yard construction work on due date late charges amounting to Rs. 109,437 had not been charged.	The late charges will be deducted from the retention money	Action should be taken to recover late charges.

- | | | | |
|-----|---|--|---|
| (b) | Although Rs.3,399,762 had been paid to the contractor for the development of Liangastota Stadium, within that amount, Rs.126,981 had been paid while the works of providing electricity and installing 04 flashlights of 100 watt size had not been completed. | Action will be taken to recover from the retention money related to the project. | The overpayment should be recovered from the responsible officials. |
| (c) | A final report of Rs.1,889,670 was prepared and submitted to the Sabha for payment for the Lolupatana Galkati road development works, while the application and transportation of 409 square meters of rushed stones on the road Rs. 111,378 was included in the payment report, however the rushed stones were not used in an area of 135 square meters. | The contractor was informed that the road should be re-laid with crushed stone and if it is not done, the payment will be deducted from the retention money. | Entered over-payment should be recovered |

3.6 Human Resources Management

Audit Observatio	Comment of the Sabha	Recommendation
(a) 09 officers working in the Sabha were employed in other duties apart from the approved duties.	Accept the audit observation	Employees should be employed on approved duty.
(b) Receivable amounting to Rs 281,293 as festival advances, special advances and disaster loans had not been recovered from 10 officers vacated their post, retired and dismissed and the Sabha management did not prepare and implement a recovery system to recover the arrears.	Rs.10,050 had been collected and the rest of the debt will be recovered.	The action should be taken to recover the employee loan.