

## **Lunugamwehera Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Lunugamwehera 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 Performance, 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 Lunugamwehera 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**

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) The financial statements had been prepared by overstating the Accumulated Fund Account by Rs. 411,213 as at 31 December 2021 and the action had not been taken rectified it even up to the year under review.	It will be corrected by preparing the final account of the year 2023	The account balance should be presented correctly.
(b) The asset brought for Rs. 453,320 by the Sabha had not been capitalized.	It will be corrected by preparing the final account of the year 2023.	Assets should be correctly capitalized.
(c) The purchase of capital assets amounting to Rs.550,990 by the Sabha had been accounted under recurrent expenditure during the year under review,	Such defects will not be occurred in the future.	Expenses should be properly identified and accounted.
(d) The cost of Rs.1,499,418 incurred to prepare the access road of the waste center laying interlock had been capitalized under land and buildings.	It will be corrected by preparing the final account of the year 2023	Capital expenditure should be correctly identified and capitalized.
(e) While capitalizing the cost of construction of fence and gates around the Keertipura sports ground, only the capital expenditure of Rs.295,088 should be capitalized, however the recurrent expenditure of Rs.681,572 had been included and capitalized.	It will be corrected by preparing the final account for the year 2023	Capital expenditure should be correctly identified and accounted.

- (f) The receivables salary reimbursements at the end of the year under review of Rs. 2,164,820 had not been accounted and the salary reimbursements of Rs.1,000,000 received in the year under review relating to the year 2020 had been accounted as income of the year.
- It will be corrected by preparing the final account of the year 2023
- Accounts receivable and income should be accurately accounted.

### 1.6.2 Non reconciled Control Accounts

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs2,667,359 in between the balances shown in the relevant Registers / Sub Registers and the balances of 09 accounting items totaling to Rs.11,849,765 included in the financial statements.	The mistakes, omissions and errors of addition caused to the difference.	The account should be corrected by comparing the differences in the respective balances.

### 1.6.3 Lack of documentary evidence for audit

Audit Observation	Comment of the Sabha	Recommendation
The value of a fixed deposit at the end of the year under review was Rs. 635,224 however the certificate of deposit in respect of fixed deposit had not been submitted for audit.	The action will be taken to get the deposit certificate.	Fixed deposit certificate should be submitted for audit.

## 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
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(a) The Section 126 of the Pradeshiya Sabha Act No. 15 of 1987	By-laws should have been enacted to fulfill 30 main matters, however by-laws had been enacted only for 28 matters by 31 December 2022.	By-laws will be prepared in the future for matters that have not been enacted.	Action should be taken in accordance with the Act

- (b) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.177 (i) The collected fair tax revenue in 21 instances amounting to Rs. 58,900 by the Revenue Inspector employed of the Sabha, in the year 2022, had been retain with the officer without properly remitting to the office between 01 and 57 days from the date of revenue collection. A warning letter was issued to the Revenue Inspector and the remittance of money would be scrutinized. Action should be taken in accordance with the Financial Regulation

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statement presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December amounted to Rs. 910,950 as compared with excess of revenue over recurrent expenditure amounted to Rs. 1,098,417 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 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)
Other Tax } Rent License Fees } Other Income }	530,000	692,800	635,120	154,760	455,000	531,580	464,500	97,080
	6,045,000	3,377,183	3,462,646	1,386,296	4,626,600	5,544,516	4,529,843	1,471,759
	1,348,200	1,720,235	1,790,685	1,395,340	850,000	1,729,400	775,450	1,465,790
	2,110,000	1,682,430	1,170,193	628,608	150,000	33,310	22,440	116,371
<b>Total</b>	<b>10,033,200</b>	<b>7,472,648</b>	<b>7,058,644</b>	<b>3,565,004</b>	<b>6,081,600</b>	<b>7,838,806</b>	<b>5,792,233</b>	<b>3,151,000</b>

#### 2.2.2 Performance in Revenue Collection

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

Audit Observation	Comment of the Sabha	Recommendation
(a) According to section 134 (1) of the Pradeshiya Sabha Act, the developed areas of the council limit had not been identified and levied assessment tax by the end of the year under review.	The assessment tax will be recovered after the assessment reports received.	Action Should be taken accordance with the Act.

(b)	Business tax receivable as at 31 December of the year under review amounting to Rs. 154,760 had not been proceeded under the Section 152 (1) of the Pradeshiya Sabha Act.	The action will be taken to collect the arrears.	Arrears of income should be collected as soon as possible.
(c)	The action had not been taken to recover as per Section 159 (1) of the Pradeshiya Sabha Act as at 31 December of the year under the shop room rent and fines due from 16 shops owned by the council amounting to Rs. 116,800 and vehicle rent amounting to Rs. 482,950.	The action will be taken to collect the arrears in future.	Income should be collected.
(d)	The fair tax income to be received from 03 weekly fair owned by the Sabha amounting to Rs. 553,210 had not been recovered as at 31 December of the year under review.	The arrears will be recovered through security deposit and legal proceedings.	Arrears of income should be collected as soon as possible.
(e)	03 Beralihela small villages had sold the lease rights to a third party not in accordance with the weekly fair lease agreement and the Sabha did not pay attention to the fact that the lease buyer had violated the terms of the lease agreement.	The proceedings will be initiated in the future to recover the tax arrears.	Should be comply with the terms of the agreement.
(f)	The License fees receivable as at 31 December of the year under review amounting to Rs. 166,750 had not been recovered as per Section 149 of the Pradeshiya Sabha Act.	The action will be taken to collect the arrears.	Should be recovered the charges.
(g)	The advertising board fees receivable from 31 entities amounting to Rs. 1,228,590 had not been recovered as at 31 December of the year under review.	The action will be taken to collect the arrears.	Arrears of income should be collected as soon as possible.
(h)	The Court fines and stamp duty receivable from the Chief Secretary of the Provincial Council as at 31 December of the year under review are Rs. 378,654 and Rs.2,260,547 respectively.	The outstanding court fines and stamp duty will be collected expeditiously.	Arrears of income should be collected as soon as possible.

### 2.3 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
As a welfare matter of the Sabha, water is distributed within the council area free of charge. The water supply income of the year under review was Rs. 118,646, however the total cost	Water will be provided free of charge only for funerals as a welfare matter in the future.	A price that covers the cost should be charged.

of purchasing water from the Water Supply and Drainage Board, water distribution and fuel cost was Rs. 1,794,449, the expenditure over income was Rs. 1,675,803 and the total expenditure had increased by 15 times compared to the income.

### 3. Operational Review

#### 3.1 Transactions of Extraneous Nature.

Audit Observation	Comment of the Sabha	Recommendation
Rs. 279,750 had been incurred for distribution of school books for the school children during the year under review,		
The books thus purchased were not distributed to the children and 14 sets of books valued at Rs.19,980 were prepared and given to the 14 members of the Sabha on 14 December 2022. The registers confirming that the books were distributed to the children by the members had not been provided even on 16 March 2023 which was the date of audit.	Such omissions will not be happened in future.	Evidence that the books have been distributed should be submitted.

#### 3.2 Assets Management.

Audit Observation	Comment of the Sabha	Recommendation
(a) The legal ownership of 61 lands, 30 cemeteries, 38 community halls and 03 vehicles had not been transferred to the Sabha by the end of the year under review.	The ownership of land and vehicles is being acquired.	Legal ownership of the assets should be acquired.
(b) 03 vehicles and machines owned by the Sabha remained idle from the years 2018 and 2019 and had not been repaired or disposed by the end of the year under review.	The boards of disposal will be appointed and these vehicles will be disposed.	Non-performing assets should be repaired or disposed.

#### 3.3 Procurement Management

Audit Observation	Comment of the Sabha	Recommendation
Non-compliance with Section 5.6.1 of the Government Procurement Guidelines 2006 aggregated value of 06 units of sports equipment were purchased for Rs.986,350 for	That instructions were given to the subject officers to deal with ,correctly in the future.	The action should be taken in accordance with the Procurement guidelines.

preschool students. Without appointing a technical evaluation committee as per the section 2.8.4, and get a report to identify whether these purchases are up to the required standard.

### 3.4 Deficiencies in contract administration

Audit Observation	Comment of the Sabha	Recommendation
(a) A payment report of Rs.4,450,776 was prepared for the Beralihela market development construction and deduct a retention amount of Rs. 445,077, a payment Rs. 4,005,699 had been paid to the contractor, however the over payment of Rs. 318,952 had been done for the unfulfilled work during the operation of the contract.	Rs. 127,570 is recovered in payment of retention money to the contract societies, and the rates used in respect of the balance are correct.	Overpayments should be recovered.
(b) Construction Inspection - In relation to 04 construction work indicated by Audit query No. HMB/B/LPS/B4/2021/AQ/07 dated 25 March 2022 issued in relation to the year 2021, The action had not been taken to recover Rs. 482,217 according to the provisions of the Financial Regulation 155 and take necessary action in relating to the issues.	For contract, the use of human labor with machines and, the rates used are correct.	The overpayments should be recovered.