

Lunugala Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lunugala 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 operation, and other explanatory information, including a summary of significant accounting policies, 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 Sub-section 172 (1) of the Pradeshiya Sabh as 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 accompanying financial statements give a true and fair view of the financial position of the Lunugala Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this 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 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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism 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 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 the Pradeshiya Sabha 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- a) Financial statements of the Pradeshiya Sabha are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- b) The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented.

1.6. Audit observations on the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Although the total value of plants and machinery in the year under review amounted to Rs. 869,805, it had been stated as Rs. 1,062,661 in the statement of financial position.	Action will be taken to correct the error of overstatement of Rs. 192,856 by adjusting in the accumulated fund.	Accounts should be prepared correctly.
(b) The insurance expenditure of Rs. 192,856 paid in the preceding year in respect of the succeeding period had not been brought to account as an expenditure pertaining to the year under review.	The insurance expenditure, which was understated by Rs.192,856, will be corrected by adjusting with the insurance expenditure paid for the future period and the revenue contribution to capital input account.	-Do-
(c) Although Rs.360,243 brought to account as expenditure creditors in the preceding year had been settled during the year under review, it had been stated as current liabilities in the statement of financial position.	A sum of Rs.360,243 stated as the creditors had been erroneously restated as current liabilities and action will be taken to deduct it from the liability balance and thereby correct the error.	-Do-
(d) Although the other revenue for the year under review should be Rs. 15,585,603, it had been brought to account as Rs. 14,082,735.	Action will be taken to correct the error that occurred due to understatement of operating revenue by Rs. 1,502,868.	-Do-

1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
The value of the stock of stationery and old water accessories as at 31 December of the year under review was Rs.1,440,864 and that value could not be satisfactorily examined due to not maintaining the stores ledger in an updated manner.	Instructions were given to maintain a formal stores ledger.	Stores ledger should be properly maintained in an updated manner.

1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
(a) Section 23 (b) of the Environmental Act, No.47 of 1980.	An environmental protection licence had not been obtained for the discharge/dispose of waste collected by the Sabha.	Although the environmental protection licence was applied from the Central Environmental Authority, the licence could not be obtained due to the deficiencies in the Solid Waste Management Center. The application is due to be submitted again after correcting those deficiencies.	An environmental protection licence should be obtained by correcting deficiencies of the Solid Waste Management Center.
(b) Section 2 of the Declaration of Assets and Liabilities Act, No.01 of 1975.	Twenty members of the Sabha had not furnished the declaration of assets and liabilities from the year 2019 up to the year under review.	Although the members were informed in this connection, only the Member G.Loganadan has submitted his declaration of assets and liabilities for the year 2022. Action will be taken to obtain the declaration of assets and liabilities from every member of the Sabha in the future.	Action should be taken to obtain the declaration of assets and liabilities annually.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the expenditure of the Sabha in excess of the recurrent revenue amounted to Rs.13,972,065 for the year ended on 31 December of the year under review as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.10,101,431.

2.2 Revenue Administration

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

According to the information submitted by the Chairman, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	<u>2022</u>				<u>2021</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,082,800	1,180,110	717,725	462,385	255,500	256,701	169,256	87,445
(ii) Rents	7,409,700	3,207,707	2,018,886	1,188,821	4,688,709	2,730,958	2,127,160	603,798
(iii) License Fees	1,186,000	-	840,634	(840,634)	708,000	-	331,436	(331,436)
(iv) Other Revenue	5,500,000	4,384,685	1,124,595	3,260,090	6,066,540	10,596,528	2,068,339	8,528,189
Total	15,178,500	8,772,502	4,701,840	4,070,662	11,718,749	13,584,187	4,696,191	8,887,996

3. Operating Review

Execution of duties entrusted by the Act

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

	Audit Observation	Comment of the Shaba	Recommendation
(a)	The solid waste that cannot be used to make compost should not be disposed of on open land and, as far as possible, recyclable materials should be segregated and recycled. Nevertheless, action had not been taken accordingly and after the daily segregation, a large quantity of non-degradable waste had been openly disposed of on the premises of the solid waste management centre.	It is proposed to dispose of the non-degradable waste in a land filling to be prepared in the future.	Action should be taken to properly dispose of the waste.
(b)	A land belonging to the Department of Forest Conservation and located at Suriyagoda had been purchased on lease basis by the Pradeshiya Sabha in the year 2017 to construct a waste yard. On that land, two compost yards, fertilizer storage rooms had been constructed and waste strainer had been purchased and installed at a cost of Rs. 6,383,675. As electricity connection had not been taken even by 06 July 2022, project	A generator is proposed to be obtained by the LDSP.	-Do-

could not be implemented and about 42 tons of waste collected annually had been irregularly heaped deploying a tractor, a hand cart and 09 employees.

- (c) A water sample testing laboratory containing all equipment and the toilet system at the Lunugala bus stand had been constructed and handed over to the Sabha in the year 2022 under the water scheme of the Lunugala town with the investment of Rs.180 million under the Water Supply and Sanitation Improvement Project of the Ministry of National Water Supply and Rs.59 million under the Sabha funds. Although chemicals and equipment had been provided to the water sample testing laboratory, a qualified laboratory technician or assistants had not been recruited to maintain laboratory activities. As such, water testing activities of the laboratory had not been performed.

As the officer appointed on contract basis according to the Local Government Commissioner's letter No. 12/wp/10/cdIlg/la-04 dated 23 March 2023, did not assume duty, the work of the laboratory could not be started. Laboratory activities should be started recruiting a qualified officer.