

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Welimada 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 Sabhas 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 Welimada 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 Sabhas 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 Observations on the preparation of financial statements

1.6.1 Accounting Deficiencies

| Audit Observation | Comment of the Sabha | Recommendation |
|---|---|--|
| (a) When capitalizing the value of constructions completed during the year under review, a sum of Rs. 550,705 had been overstated in the accounts. | Relevant correction will be made in the preparation of accounts for the ensuing year. | Capital expenditure should be correctly accounted for. |
| (b) Before the completion of works of the Keppetipola Shopping Complex constructed by the Sabha during the year under review, a sum of Rs. 18,928,961 had been capitalized. | -Do- | -Do- |
| (c) Twenty two industries valued at Rs. 1,928,206 proposed to be implemented by the Sabha funds during the year under review had been brought to accounts as creditors. | -Do- | Accounts should be prepared correctly. |
| (d) The closing stock of the stationery as at 31 December of the year under review had been overstated by Rs. 2,190,270 and brought to account. | -Do- | -Do- |

1.6.2 Lack of Documentary Evidence for Audit

| Audit Observation | Comment of the Sabha | Recommendation |
|---|---|--|
| As the registers of fixed assets, valuation reports, transfer orders, title certificates, other documents and schedules had not been furnished for the confirmation of 03 fixed asset items totaled Rs. 249,275,460 and the balance of closing stocks of Rs. 4,596,549, they could not be satisfactorily examined in audit. | Relevant correction will be made in the ensuing year. | The documentary evidence which confirms the account balances stated in the financial statements should be furnished. |

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) Pradeshiya Sabha Act No.15 of 1987 Section 19(1) | Approval of the Commissioner of Local Government had not been obtained up to the year under review for 26 casual health labourers recruited during the period from January 2007 to October 2020. | Recruitment of casual labourers will be made subject to the approval of the Commissioner of Local Government in the future. | Labourers should be obtained after obtaining the approval. |

- (b) Establishments Code of the Democratic Socialist Republic of Sri Lanka
Sections 1.6 and 4 of Chapter XXIV
The outstanding employees loan balances of Rs. 218,358 that continued to exist since the period before 2005 from 13 retired, deceased officers and those who vacated the service had not been recovered up to the end of the year under review.
After finding out the relevant information, legal action will be initiated.
Action should be taken to recover the outstanding loan balances.
- (d) Declaration of Assets and Liabilities Act No.01 of 1975.
Section 2(1)d
Twenty-eight members of the Sabha had not furnished the declarations of assets and liabilities from the year 2019 up to the year under review.
Although the members were informed, they have not so far furnished the declaration of assets and liabilities.
In terms of provisions of the Act, the declarations of assets and liabilities should be obtained from every member.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 95,113,331 for the year ended on 31 December of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 48,298,295.

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 Rs. | Billed Revenue Rs. | Collected Revenue Rs. | Total Arrears as at 31 December Rs. | Estimated Revenue Rs. | Billed Revenue Rs. | Collected Revenue Rs. | Total Arrears as at 31 December Rs. |
| (i) Rates and Taxes | 5,657,070 | 6,037,055 | 1,579,631 | 4,457,424 | 5,814,509 | 6,109,765 | 1,996,443 | 4,113,322 |
| (ii) Rents | 43,031,435 | 40,776,566 | 38,538,196 | 2,238,370 | 20,464,530 | 16,814,592 | 14,280,612 | 2,533,980 |
| (iii) License Fees | 3,382,659 | 3,748,759 | 3,748,759 | 0 | 2,648,400 | 3,397,666 | 3,397,666 | 0 |
| (iv) Other Revenue | 62,006,073 | 92,611,271 | 39,315,570 | 53,295,701 | 37,619,000 | 59,874,126 | 20,639,554 | 39,234,572 |
| Total | <u>114,077,237</u> | <u>143,173,651</u> | <u>83,182,156</u> | <u>59,991,495</u> | <u>66,546,439</u> | <u>86,196,149</u> | <u>40,314,275</u> | <u>45,881,874</u> |

2.2.2 Performance in the collection of revenue

The observations on the performance in the collection of revenue of the Sabha are as follows.

| Audit Observation | Comment of the Sabha | Recommendation |
|---|---|--|
| (a) Rates and Taxes | | |
| (i) Out of the billed income of Rs.2,800,000 of the year under review, the income collected during the year was Rs.1,718,610 and it was 61 per cent of the billed income. | The crisis situation prevailing in the country contributed to this situation. | Outstanding Rates should be recovered expeditiously. |
| (ii) The outstanding Rates income pertaining to the preceding years amounted to Rs. 3,278,292 as at the beginning of the year under review and a sum of Rs. 578,313 had been recovered during the year. Accordingly, the percentage of the collection of outstanding Rates was as low as 17 per cent. | -Do- | -Do- |
| (b) Rent | | |
| Outstanding stall rents of Rs.127,435 that continued to exist since the period before 2015 had not been recovered even by the end of the year under review. | Arrears will be recovered by taking legal actions. | Outstanding stall rents should be recovered. |
| (c) Water Charges | | |
| No action had been taken to recover an outstanding water charges of Rs.296,190 continued to exist over a period of 09 years from the Bogas ella, Landegama and Dambawinna- Dayabara water schemes of the Sabha as at 31 December of the year under review. | Outstanding water charges will be recovered by conducting mobile services. | Outstanding water charges should be recovered. |

2.3 Surcharges

| Audit Observation | Comment of the Sabha | Recommendation |
|---|---|--|
| Two surcharges totalled Rs. 764,114 imposed by the Auditor General in the year 2019 according to Section 172 (3) of the Pradeshiya Sabha Act had not been recovered even by 31 December of the year under review. | This amount has been paid at Rs.1,000 from October of the year under review. The remaining amount of the surcharge will be recovered. | Outstanding surcharge will be recovered. |

3. Operating Review

3.1 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 Sabha | Recommendation |
|---|---|---|
| (a) Temporary trade licenses had been given to be renewed on each 14 days for 03 private slaughterhouses that had not obtained environmental protection licenses. | Environmental protection licences have not been obtained from the Central Environment Authority. Action will be taken in this regard in the future. | Action should be taken to provide formal environmental protection licences for slaughterhouses. |
| (b) The environmental protection license had not been obtained for the crematorium located at Divithotawela, which had been operating since 2008. | Arrangements are being made to obtain Environmental protection licences. | Environmental protection licences should be obtained for the crematorium. |

3.2 Management Inefficiencies

| Audit Observation | Comment of the Sabha | Recommendation |
|---|--|--|
| (a) One per cent of the previous year's income had not been levied from the hotels, restaurants and lodgings registered with the Sri Lanka Tourism Board. | The task of levying charges has been entrusted to the Revenue Inspectors. | Tax should be recovered from the hotels, and restaurants registered with the Sri Lanka Tourism Board after being identified them |
| (b) Lease rent had not been determined once every 05 years based on the assessment of the Chief Assessor according to the Local Government | Requests have been made to the Department of Valuation to carry out a new assessment for the unassessed shops. | Action should be taken to lease shops by the procurement process after carrying out a proper |

Commissioner's Letter No. 1980/46 dated 31 December 1980 and condition No. 02 of the Lease Agreement.

assessment.

3.3 Assets Management

| Audit Observation | Comment of the Sabha | Recommendation |
|---|---|---|
| <p>Although 4665 litres of fuel worth Rs. 1,173,565 had been filled into the backhoe loader of the Sabha during the year under review, it had not been deployed for income generation activities. No estimates, decisions of the Sabha and the Technical Officer's reports had not been submitted to the audit to confirm that the backhoe loader was used for the welfare activities of the Sabha.</p> | <p>The information that has not been submitted will be promptly furnished to the audit.</p> | <p>Estimates of the Technical Officer and work completion records should be maintained when carrying out works using machinery.</p> |