

## Wellawaya Pradeshiya Sabha – 2022

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Wellawaya 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 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 financial statements give a true and fair view of the financial position of the Wellawaya 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**

I expressed qualified opinion 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 scepticism 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**

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- (b) The financial statements presented includes all the recommendations made by me in the previous year, as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations on the preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The value of library books purchased during the year 2022 worth Rs.23,550 had been accounted as Rs.116,420.	The overstatement of library book balance by Rs.92870 will be corrected in the future in preparation of financial statements.	The value of purchased library books should be accurately identified and accounted for.
(b) Rs.500,000 paid for the purchase of library books in the previous year had been accounted as an expense in the year under review.	In preparing the 2023 financial statements, the creditors' provisions and current expenses will be checked and the accounting entry will be kept.	In preparing the financial statements, the relevant period should be correctly identified.
(c) As on December 31 of the year under review, the Ayurvedic stock consumed was overstated by Rs.84,665.	The Ayurvedic stock register will be checked and the balances will be corrected	Stock values should be correctly identified and accounted for.
(d) The creditor balance of Rs.492,898 included in the creditor's register maintained by the Sabha was not shown under various creditors.	The creditor register of the office will be checked and corrected in the future	Creditor values must be accurately identified and accounted for.
(e) During the year under review, the expenditure of Rs.320,000 spent on installation of a water pump for the tube well of Anapallama Crematorium had not been capitalized.	In preparing the 2023 financial statements, this expense will be capitalized.	The value of all assets purchased in the year under review should be recognized and properly accounted for.
(f) Regarding the construction of the Wellawaya Satipola multi-purpose building, the retention amount of Rs.1,906,431 due from the Local Development Supporting Assistance Project Office for the year under review was not included under outstanding capital assistance.	In preparing the 2023 financial statements, this error will be corrected by adjusting the Schedule of Industrial Assistance Receivables.	Accounts should be prepared correctly.
(g) During the year under review, the part payment of Rs.185,000 given for the repair of the toilet system of the Mahinda Rajapaksa Conference Hall was shown as a minus balance under receivables in the statement of financial position.	The relevant industry payment bill details will be checked and balance corrections will be made,.	Accounts should be prepared correctly.

- (h) No provision was made in the financial statements for audit fees during the year under review. A provision of Rs.10,000 has been allocated under the 2022 annual budget, under the expenditure head 105.9 other expenditure head. Provisions should be made correctly in preparing financial statements.

### 1.6.2 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
There was a difference of Rs.2,996,281 between the balances shown in the financial statements and the balances according to the schedules and documents provided for 02 accounting heads.	The related outstanding balances are correct in the financial statements, and the deficits related to the currently unused properties are not in the documents, and the subject officer was instructed to find the information and include it in the document.	Documents and schedules should be properly updated and the reasons for non-conformities should be found and corrected.

### 1.6.3 Documentary Evidences not made available for Audit

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
In respect of 06 subjects of assets and liabilities with a total value of Rs.276,989,839 could not be satisfactorily verified during the audit due to non-submission of valuation reports, age analysis, documents and schedules.	The lands belonging to the Sabha will be assessed and settled and other documents and schedules will be updated in the future	Evidence supporting the account balances shown in the financial statements should be submitted.

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Below are the instances where laws, rules, regulations and management decisions were not complied with.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 1646	The running charts of 06 vehicles owned by the Sabha for the year 2022 had not been submitted for audit.	Arrangements will be made to send the running charts of every vehicle owned by the Sabha to the auditor general every month.	Financial regulations should be followed.
(b) Circular dated 17th August 2010 of the Secretary, Ministry of Power and Energy	According to the street light register maintained by the Sabha, although 1585 street lights were installed in the	By having discussion with the Electricity Board, Street lights were installed in the places with wild elephant threat and	It should be complied with the circular.

Sabha area of authority, no threats of thefts and burglary. agreement was entered with The necessary arrangements the Ceylon Electricity Board will be made to enter into a contract in the future. regarding street lighting.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December of the reviewed year amounted to Rs. 14,240,661 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 15,871,403 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 relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	<u>2022</u>				<u>2021</u>			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	6,246,032	6,092,873	2,037,152	3,862,439	6,396,032	6,029,505	2,634,785	4,339,154
(ii) Rent	15,116,000	10,264,672	5,445,948	4,832,094	16,760,400	8,866,457	3,732,217	5,174,359
(iii) License Fees	6,361,025	2,201,106	2,156,106	45,000	8,352,250	1,858,495	1,807,495	51,000
(iv) Other revenue	2,987,000	1,755,755	483,272	1,272,483	2,762,000	5,226,027	447,082	-
Total	<u>30,710,057</u>	<u>20,314,406</u>	<u>10,122,478</u>	<u>10,012,016</u>	<u>34,270,682</u>	<u>21,980,484</u>	<u>8,621,579</u>	<u>9,564,513</u>

#### 2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

Audit Observation	Comments of the Sabha	Recommendation
(a) Out of the total billed revenue of Rs.20,314,406 in the year under review, Rs.10,012,016 remained uncollected at the end of the year, which was 49 percent of the total billed revenue.	More than 50 percent of the total billed revenue has been recovered in the current year which shows progress compared to last year. And action will be taken to recover the arrears of revenue promptly.	Billed income should be collected.

- (b) Out of the assessment tax revenue of Rs.6,015,905 billed in the year under review, the outstanding assessment tax as on 31 December 2022 was Rs.3,844,575, which was 64 percent of the total billed value. At the beginning of the year under review, the rate of collection of assessment tax in arrears was 16 percent.
- Due to continuous arrears of assessment tax for many years, Taxes levied are offset by arrears, so the current turnover is at a lower level. Since the post of Revenue Inspector has been vacant for several years, revenue collection has been low and request has been made to fill up the vacancies.
- Billed revenues should be collected and arrears of assessment tax should be collected promptly.
- (c) Out of the outstanding tender property tax revenue of Rs.7,603,482 at the beginning of the year under review, Rs.7,138,378 remained to be recovered as on December 31, 2022. Accordingly, the percentage of collection of outstanding tender property tax revenue was 6 percent.
- Since it is difficult to find sufficient evidence to recover the arrears of taxes that have been remained in the documents for many years, the charges have been delayed and the information will be sought and charged promptly.
- Arrears of Tax revenue should be recovered promptly.
- (d) Out of Rs.5,055,960 due from 144 leased shops in the year under review, outstanding shop rent as on 31st December 2022 was Rs.4,224,874, which was 84 percent of the total billed income.
- As shop rents continue to be in arrears, current shop rents are lower, as a higher proportion of the rents charged in the current year is offset against shop rent in arrears. Collections have become difficult due to continuous vacancy of revenue inspector posts and economic downturn in the country. Special programs are proposed to be implemented for prompt collection of rent arrears.
- The arrears of shop rent revenue should be recovered promptly.
- (e) Rs. 347,350 due for the period 2017-2022 from 16 fixed advertising boards displayed by various institutions/individuals in the Sabha area of authority, had not been recovered by December 31, 2022.
- The billboards installed during the period 2017-2022 have been removed by the current year, so the charges have become difficult.
- The arrears of revenue should be recovered promptly.
- (f) As on December 31 of the year under review, business tax of Rs. 201,000 due from 18 telephone transmission towers established in the Sabha area of authority had not been recovered.
- Action will be taken to Deploy revenue inspectors and conduct a field inspection to collect license fees for all transmission towers.
- The arrears of business taxes should be collected promptly.

- (g) As of December 31 of the year under review, court fines amounting to Rs.1,207,932 and stamp duty amounting to Rs.11,620,091 had not been collected from the Chief Secretary of the Provincial Council and other authorities
- Necessary steps are being taken to recover outstanding court fines and stamp duty.
- Arrears court fines and stamp duty should be remitted.
- (h) Regarding the period from 2013 to 2022, outstanding machine rental income of Rs. 6,605,201 due as on December 31 of the year under review for the rental of 02 machines belonging to the Sabha had not been recovered.
- Several letters have been issued to collect the arrears of machine rent and legal proceedings are being taken to collect it expeditiously
- The arrears of revenue should be recovered promptly.

### 3. Operational Review

#### 3.1 Uneconomic Transactions

Audit Observation	Comments of the Sabha	Recommendation
Randenigoda Yaya Playground, which was completed on November 8, 2021 at a cost of Rs. 1,470,000 under the national program to develop 33 playgrounds for each local government body, has not been used for sports activities by October 12, 2022 hence, weeds were growing there.	Since the Randenigodaya Sports Ground is in charge of the Divisional Secretariat, the necessary arrangements will be made to take over it to the Pradeshiya Sabha and direct it to sports activities.	When incurring expenditure, the economical of the expenditure should be taken care of and the resources should be utilized efficiently.

#### 3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) 477 library books worth Rs. 75,217, which were given to the readers in the period from 2001 to December 31, 2019 in 04 libraries belonging to the Sabha, had not been returned by March 30, 2023.	Although letters have been issued to obtain the books, it has become difficult to find the relevant people due to the change of addresses. As 200 replacement books have been obtained at present, it will be submitted to the Library Advisory Committee and further action will be taken.	Books issued to readers should be obtained back.
(b) 5 lands with an assessed value of Rs. 63,300 and 3 buildings with an assessed value of Rs. 152,000 whose physical existence has not been confirmed; even though the fixed asset registries have been mentioned them as	Due to the fixed assets that have been carried forward in the accounts for many years, necessary steps will be taken to physically identify and protect them. During the development activities, the buildings were	Efforts should be made to confirm the physical existence of land and buildings belonging to Sabha.

belonging to the Sabha had been demolished about 20 years ago, so the necessary steps will be taken to remove them from the documents.

### 3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
The value of 19 lands and 71 Cemeteries identified as belonging to the Sabha had not been assessed and accounted for.	The relevant land and cemetery surveying and assessment work will be done considering the state of Sabha funds and the necessary further work will be done.	The value of lands and cemeteries belonging to the Sabha should be assessed and accounted for.

### 3.4 Defects in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
The construction of the walls and roof of the Kehiliya Farmers Organization building was completed on June 1, 2022 by spending Rs.553,476 from the Pradeshiya sabha fund, and due to incorrect measurement the total sum of Rs.37,106 had been overpaid, as Rs. 31,746 for wall construction, and Rs. 5,630 for plastering. Also, it was observed that first class wood, paint and brass hinges and fittings were not used as stated in the estimate and measurement sheets for the doors and windows of the building and Rs. 67,543 that had been paid were overpayments.	Since there were some defects in the measurements at the time of the audit, the correct measurements were taken again and the correct measurement sheets and all the defects were completed and the relevant photographs were submitted to the audit.	The answer is not acceptable, construction should be done as per estimates and measurement sheets should be prepared correctly.

### 3.5 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
(a) As on 31st December of the year under review, there was a shortage of 07 employees in relation to 06 positions in the Sabha, according to the approved staff and by the date of audit on 30th March 2023, the said vacancies had not been filled.	Requests have been made to the Commissioner of Local Government to fill the vacancies.	Vacancies in staff should be filled.



- (b) The festival advance of Rs.31,250 and Officers were instructed to speedily Loan recovery should be done within the relevant time limits.  
the special advance loan balance of recover the loans from those who are  
Rs.2,800 due from 05 employees currently working and from the  
working in the Sabhal had not been guarantors of those who are not  
recovered even on December 31, 2022. working.

#### 4. Accountability and Good Governance

##### 4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
As there are significant variations between the estimated income and the actual income of the year from 2 percent to 65 percent, and between the estimated expenditure and the actual expenditure of the year from 2 percent to 88 percent in the budget prepared for the year by the Pradeshiya Sabha; the budget was not used as an effective control instrument in controlling the income and expenditure.	That there were income fluctuations due to lack of machinery for compost production, lack of fuel and reduced development programs, limited conference events, etc. Special attention will be paid in preparing the next years' budget.	A proper budget should be prepared and the goals specified in it should be met.