

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Elahera Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022, Statement of Comprehensive Income, statement of changes in net assets/equity, 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 financial statements give a true and fair view of the financial position of the Elahera Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

**1.2. Basis for Qualified Opinion**

Based on the matters described in Paragraph 1.6 of this report I express a qualified opinion in respect of financial statements.

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 Sri Lanka Public Sector Accounting Standard, 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, enable to preparing 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 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) Due to failure to recognize based on the percentage of completion of projects for which the contracts have been cancelled in the financial statements in accordance with the Sri Lanka Public Sector Accounting Standard for Local Authorities, the value of 5 building constructions had been overstated by Rs. 19,241,649.	Actions will be taken to correct.	Work-in-progress should be recorded as an asset based on the percentage of output.
(b) The expenditure of Rs.8,926,938 incurred for improvement of existing assets had not been brought to accounts under non-current assets as per EG 3.1 of Sri Lanka Public Sector Accounting Standards for Local Authorities.	Actions will be taken to correct.	As the expenditure shown is for improvement of assets, it should be capitalized.

(c)	Later identified building of Shop 16 of Diyabeduma Satipola as at 31 December of the year under review valued at Rs.11,688,658 had not been disclosed in the financial statements.	-do-	The improvements made to fixed assets should be accounted for under fixed assets.
(d)	Although the cost of laying interlock on a road and construction of a culvert was Rs.4,974,060, the value was stated as Rs.5,566,724 by overstating Rs.592,664 in the financial statements.	-do-	It was observed that the value was not accounted for as per the bills. Accurate values should be accounted for.

### 1.6.2 Unreconciled Accounts

Audit Observation	Comments of the Sabha	Recommendation
(a) A difference of Rs.378,544 was observed in between the values shown in the non-current assets schedules presented with the financial statements of the year under review and the values shown in the fixed assets documents pertaining to that.	Actions will be taken to correct.	Accurate value should be identified and corresponding records or documents should be corrected.
(b) There was a difference of Rs.1,220,669 in between the value of short-term payables as per Note No. 19 and the values as per the relevant schedules.	-do-	-do-
(c) A difference of Rs. 2,732,400 was observed in between the schedules and ledger account balances relating to business tax receivable, rent and court	-do-	-do-

fine revenue presented with the financial statements.

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|------------|--|-------------|-------------|
| <p>(d)</p> | <p>Although Rs.2,077,173 had been deducted from the accumulated surplus, as changes in accounting policies/ errors in prior periods, in the statement of changes in equity for the year ended 31 December of the year under review, thus that value was Rs.1,770,851 as per the wrongly mentioned schedules in the preceding period of time, there was a difference of Rs.306,322.</p> | <p>-do-</p> | <p>-do-</p> |
| <p>(e)</p> | <p>Although the total expenditure related to Programme number 07 in the year under review was Rs. 6,528,105, thus that value was Rs.5,859,012 in the comprehensive income statement, there was a difference of Rs.669,093.</p>   | <p>-do-</p> | <p>-do-</p> |
| <p>(f)</p> | <p>Although the value of library books according to the schedule of the year under review was Rs.2,599,427 thus that value was Rs. 3,814,051 in the financial statements, there was a difference of Rs.1,214,624.</p>  | <p>-do-</p> | <p>-do-</p> |
| <p>(g)</p> | <p>Although the depreciation of roads, culverts and bridges as per schedules of the year under review was Rs.4,661,276 thus the amount of depreciation accounted for was Rs.5,824,754 there was a difference of Rs.1,163,478.</p>  | <p>-do-</p> | <p>-do-</p> |

### 1.6.3 Lack of Evidence for audit

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Due to non-submission of balance confirmations, schedules, primary books pertaining to 04 accounts items valued at Rs.69,494,416 as at 31 December of the year under review, they could not be satisfactorily vouched or accepted in audit.	The instructions were given to be properly updated and maintained from the year 2023.	Information required to verify balances should be maintained.

## 1.7 Non-compliance

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

<b>Reference to Laws, Rules, Regulations Management Decisions etc.</b>	<b>Non-compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>(a) Rules and Statutory Provisions</b>			
<b>(a)</b> Special Gazette Notice No. 2086/15 of the Democratic Socialist Republic of Sri Lanka dated 29 August 2018 on Promulgated Rule No. 1.1 for Pradeshiya Sabhas	Although the limit of fuel to be consumed by a Chairman of a Pradeshiya Sabha from one Divisional Secretariat for the official transport of the Pradeshiya Sabha should not be more than 400 liters of diesel per month, 1,034 liters of extra fuel of diesel had been used exceeding the limit for seven months.	The additional fuel has been purchased for driving outside the District.	Actions should be taken as per circular provisions.

## (b) Treasury Circulars

Paragraph 05 of Public Finance Circular No. 364(3) dated 30 September 2022

Even though the Value Added Tax payments of Rs.133,524 for 04 occasions had been made, it had not been informed to the Inland Revenue Commissioner .

The advice was given to take actions to inform the Commissioner General of Inland Revenue about the payment of Value Added Tax and to check and pay.

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## 2. Financial Review

### 2.1 Financial Results

As per the financial statements presented, the income exceeding the expenditure of the Sabha for the year ended 31 December 2022 was Rs.5,172,484 and the correspondence revenue that exceeded the expenditure of the preceding year was Rs.14,043,160.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

The details about the estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December
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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,781,498	1,936,107	1,515,898	420,209	1,547,528	1,712,542	1,477,562	955,542
(ii) Rents	34,495,000	3,838,015	641,796	3,196,219	8,951,200	9,013,981	6,939,800	6,240,659
(iii) License Fees	745,250	1,914,662	1,451,042	463,620	547,750	337,830	446,275	30,000
(iv) Other Income	29,259,936	30,015,271	14,391,738	15,623,533	22,000,000	18,000,960	26,859,275	10,419,246
	66,281,684	37,704,055	18,000,474	19,703,581	33,046,478	29,065,313	35,722,912	17,645,447
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## 2.2.2 Performance of Revenue Collection

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

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>(a) Rates and Taxes</b>  The rates were not assessed after the year 2004 and the rates were levied on the basis of that assessment.	The information is being obtained for the new assessment by now.	Rates should be assessed in time.
<b>(b) Rents</b>  Due to the failure to act in accordance with Section 159 of the Pradeshiya Sabha Act in relation to shops the arrears of rent were being brought forward for more than 03 years.	Actions will be taken to recover the arrears in the future.	Actions should be taken to recover the arrears of revenue.
<b>(c) Other Revenues</b>  The revenue from court fine and the revenue from stamp duty which should have been received from the Secretary of the Provincial Council and other authorities as at 31 December 2022 were Rs.13,796,187 and Rs.1,686,900 respectively.	Answers have not been given.	Arrangements should be made to collect the receivables.

## 3. Operational Review

### 3.1 Performing of Tasks Assigned by the Act

The matters observed in respect of executing of functions that should have been performed by the Sabha such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.



Audit Observation	Comments of the Sabha	Recommendation
<b>Abandoned Tasks</b>		
Even though after commencing 03 tasks with an agreement value of Rs.19,807,679 a sum of Rs.4,130,061 had been spent for that under the Local Government Strengthening Programme, the implementation of those projects had been abandoned.	Due to control of public expenditure under circular No. 03/2022, arrangements have been made to cancel.	The Sabha should identify and implement projects according to priorities.

### 3.2 Identified Losses

Audit Observation	Comments of the Sabha	Recommendation
The respective contractor had neglected to construct a market building on the old weekly fair site of Diyabeduma and due to the fact that the performance security of Rs.1,774,889 and the advance security of Rs.7,099,554 given on 07 December 2021 to the Sabha by the contractor company that had been selected for the Project were fake, the Sabha could not convert them to money. Similarly, the original contract value of the Project was Rs.35,497,770 and the amount paid to the first contractor was Rs.12,088,813 and the estimated value of the rest of the works on price increases was Rs.56,338,901.	A police complaint has been lodged regarding submission of false information and the institution has agreed to pay this loss from the funds of other projects of the Department of local Government to the institution in respect of the balances to be recovered as per the final report.	After getting confirmed the accuracy of the relevant documents before entering into the contract, the contract should be entered into and payments made.

### 3.3 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Actions had not been taken to recover a value of Rs. 129,677 from two officers who were suspended from the service of the Pradeshiya Sabha and distress loans and festival advances valued at Rs.20,530 from four officers who had vacated from their posts from a period between 02 years and 09 years.	Actions are being taken to recover the arrears .	Actions should be taken to recover the arrears of employee loan amounts.

### 3.4 Deficiencies in Contract Administration

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Three projects with a contract value of Rs.19,807,676 have been commenced under the National Programme for Strengthening Local Government Institutions (Capital) and although Rs.3,725,110 has been paid for these projects by 31.12.2021, the agreements had been cancelled.	The contracts have been cancelled based on the agreement of the contractors, and that the estimates for the year 2023 related to the completion of the future works of the projects have been prepared and forwarded to the Ministry of Local Government.	Actions should be taken to complete all projects within the relevant period of time.

### 3.5 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
There were 04 development officer vacancies, 01 management assistant vacancy, and 09 technical officer and primary level staff vacancies in the Pradeshiya Sabha.	This has been informed by the quarterly staff vacancy information report.	Arrangements should be made to fill the employee vacancies.