

Polonnaruwa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Polonnaruwa 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 Polonnaruwa 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) The stamp duty revenue receivable had been understated in the accounts by Rs.327,540 in the year under review.	Actions will be taken to correct.	Accurate value should be indicated in the financial statement.
(b) The court fine income up to November of the year under review had been understated by Rs.952,834 and the stamp duty revenue relating to the month of December had not been recognized and accounted for.	-do-	-do-
(c) Revenue on sand relating to the months of November and December of the year under review amounted to Rs.435,650 had been omitted from the financial statements.	-do-	-do-

- | | | | |
|------------|---|------|--|
| (d) | The rates income of the year under review amounted to Rs.54,021 had been overstated in the financial statements. | -do- | -do- |
| (e) | A sum of Rs.483,757 had been shown in the financial statements as the amount payable for the Local Loan Development Fund which was settled on 31 December of the year under review. | -do- | -do- |
| (f) | The value of the construction of the Kadawala Ma Oya culvert amounting to Rs.237,094 had been overstated in the accounts as per the schedule of roads and bridges culverts submitted with the financial statements of the year under review. | -do- | The accurate value of fixed assets should be recognized in the financial statements. |
| (g) | Ten sundry creditor values as at 31 December of the year under review, amounted to Rs.145,201 had not been shown in the financial statements. | -do- | The expenditure related to the year should be recognized on an accrual basis to the financial statements. |
| (h) | The Wewe Thenna access road which was constructed on the allocations received from the Regional Development Assistance Project valued at Rs.5,237,499 had not been shown in the fixed assets. | -do- | Fixed assets relating to the year should be included in the financial statements. |
| (i) | Even though the work-in-progress of 08 e-libraries had been stated as Rs.14,163,825, thus the value to be shown in the financial statements was Rs.13,723,979 as per the percentage of completion, the work-in-progress had been overstated by Rs.439,846 . | -do- | Construction should be shown as work-in-progress in the financial statements as per the percentage of physical completion. |

(j)	The capital expenditure grants in the year under review had been overstated by Rs.14,348,884 in contrary to EG 2.7 of Appendix 02 of Sri Lanka Public Sector Accounting Standard for Local Authorities.	-do-	Capital expenditure related to the year should be identified and accounted for.
(k)	The income for the year had not been recognized as per the depreciated rates of assets constructed/purchased from capital grants received in 2020 and 2021 .	-do-	Actions should be taken to recognize the income based on the depreciation accounts for the assets constructed/purchased with capital grants.
(l)	Equipment valued at Rs.961,830 received from Pibidemu Polonnaruwa Project Office on 16 March 2021 had not been shown as assets in the financial statements.	-do-	Goods received as donations should be accurately identified and recorded in stock books and included in the financial statements.
(m)	The 13 buildings valued at Rs.6,109,793 and the value of 41 bridges and culverts amounting to Rs.25,420,174 to be shown in non-current assets also had not been shown in the financial statements by the end of the year under review.	-do-	Fixed assets should be properly recorded in the registers and included in the financial statements.

1.6.2 Unreconciled Accounts

Audit Observation	Comments of the Sabha	Recommendation
(a) There was a difference of Rs.918,925 between the income shown in the revenue documents and the income shown in the financial statements as at 31	It has been informed that the actions would be taken to correct.	Accurate value should be identified and corresponding records or

December of the year under review.		documents should be corrected.
(b) There was a difference of Rs.10,057,721 between the ledger account balances and the balances shown in the financial statements as at 31 December of the year under review.	-do-	-do-
(c) Even though the value of 02 items of wooden furniture had been stated as Rs.153,875 as per the schedule of furniture submitted with the financial statements of the year under review, thus its accurate value was Rs.289,000, the furniture and equipment had been understated by Rs.135,125.	-do-	The accurate value of fixed assets should be recognized in the financial statements.
(d) Even though the value of medicines at the end of the year under review had been shown in the financial statements as Rs.452,498, since the value was Rs.896,033 as per the balance confirmation of the Ayurvedic Medical Officers In Charge as at 31 December 2022, the stock had been understated by Rs.443,535.	-do-	The accurate stock value should be shown in the financial statements.

1.6.3 Lack of Written Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
As the balance confirmations, documents and schedules of 04 account balances as at 31 December of the year under review amounted to Rs.1,343,457 were not submitted to audit, it could not be satisfactorily vouched.	Actions will be taken to correct.	Information required to verify the balances should be maintained.

2. Financial Review

2.1 As per the financial statements presented, the income exceeding the expenditure of the Sabha was Rs.3,504,601 for the year ended 31 December 2022 and the correspondence revenue that exceeded the expenditure of the preceding year was Rs.13,086,784 .

2.2 Revenue Administration

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

The information about the estimated revenue, billed revenue, collected revenue 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
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,321,500	1,545,544	873,133	1,767,196	2,330,011	1,288,858	1,284,294	1,772,285
(ii) Rents	3,433,710	4,596,668	3,771,718	1,119,500	3,503,710	5,228,210	5,392,276	245,650
(iii) License Fees	377,000	385,800	353,800	504,380	448,500	651,890	651,890	-
(iv) Other Income	72,314,860	29,686,466	16,649,151	45,341,565	29,750,265	66,899,975	25,132,221	75,827,441
	77,447,070	36,214,478	21,647,802	48,732,641	36,032,486	74,068,933	32,460,681	77,845,376

2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) License Fees		
The arrears of trade license, industry tax and business tax as at 31 December of the year under review was Rs.504,380.	Actions will be taken to correct in the future.	Actions should be taken to recover arrears of license fees.
(b) Other Revenues		
(i) The outstanding water charges income as at 31 December of the year under review was Rs.174,320 and	Approval has been requested from the chief Secretary for the writing off.	Actions should be taken to settle the arrears of revenue receivable to the

actions had not been taken to get settled it for more than 06 years.

Sabha without delay.

- (ii) The outstanding garbage fee income as at 31 December of the year under review was Rs.647,500 and a sum of Rs.574,500 out of that value was a deficit remained from the year 2018.
- do-
- Actions should be taken to recover the arrears of revenue receivable to the Sabha without delay.

3. Operational Review

Human Resources Development

Audit Observation	Comments of the Sabha	Recommendation
There was one vacancy at the tertiary level, 07 vacancies at the secondary level and an excess of one post in the primary staff in the Pradeshiya Sabha as at 31 December 2022 .	Requests were made to the local authorities to fill up the existing vacancies.	Actions should be taken to fill the vacancies.