

Ja-Ela Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Ja-Ela 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, Comprehensive Income Statement, 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 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.

I do not express an opinion on the financial statements of the Pradeshiya Sabha. Because of the significance of the matters described in paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2. Basis for Disclaimer of Opinion

I expressed Disclaimer of opinion regarding financial statements on the matters described in paragraph 1.6 of this report.

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 Standards for the Local Authorities, 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 responsibility is to conduct an audit of the Pradeshiya Sabha's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

1.5 Report on Other Legal Requirements

National Audit Act, No. 19 of 2018 include 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
(a) According to Public Sector Accounting Standards for Local Authorities and Guidance EG3.4, no provision for depreciation account was maintained for depreciation of property plant equipment.	That the 2023 final accounts are presented correctly.	Accounts should be prepared as per standards.
(b) According to Sri Lanka Public Sector Accounting Standards Guidelines and Guidelines No. EG 4.17 for Local Authorities, the information related to stocks was not disclosed in the accounts or in the notes to the accounts.	That the 2023 final accounts are presented correctly.	Information relating to stocks should be disclosed in the accounts or notes to the accounts.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the council	Recommendation
(a) Depreciation amounting to Rs.43,300 related to machines purchased in the previous year amounting to Rs.866,000 which were accounted for in the year under review had not been accounted for.	That it will be corrected by Journal while preparing the 2023 final accounts.	Arrangements should be made to prepare the accounts correctly.
(b) An interest income of Rs. 551,781 received for short-term investments was shown as non-current investments instead of being shown under debit from exchange transactions.	That it will be corrected by Journal while preparing the 2023 final accounts.	do-

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the council	Recommendation
(a) There was a difference of Rs.257,773,033 between the sum of the balances of 03 ledger accounts and the sum of the balances as per the subsidiary registers as at 31 December of the year under review.	That a committee has been appointed to correct this balance and that further work is being done accordingly.	The changes in the respective balances should be compared and the accounts or schedules should be corrected.
(b) There was a discrepancy of Rs.4,876,351 with the balance of the deposit account as on 31 December of the year under review and the detailed schedule.	-do-	do-
(c) According to note 14 of the financial statement, as at 31 December of the year under review, out of the stock balance of Rs.74,734,401, schedules were submitted for Rs.73,485,826. According to the schedules, the physical stock is Rs. 8,332,280 and the remaining Rs. 65,156,216 was shown as stock adjustment.	-do-	do-

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the council	Recommendation
3 account balances worth Rs.74,488,996 as at 31 December of the year under review could not be verified satisfactorily due to non-submission of documents and schedules.	That a committee has been appointed to correct this balance and that further work is being done accordingly.	Documents and schedules must be submitted.

1.7 Non- Compliances

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

Instances of non-compliance with laws, rules, regulations and management decisions are mentioned below.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Local Council Finance Administrative Rules			
(i)	Rule 48	No stock verification was conducted regarding the storage materials in the two worksites owned by the council.	That in the future it will be done formally according to the rules.	Proceed as per reference regulation.
(ii)	108(C)	The investment value of Rs.110,551, 781 due on 14 July 2023 was shown under non-current assets instead of under current assets.	No answers provided	-එම-
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	F.R.371	3 advance balances of Rs. 51, 040 which granted in the years 2020, 2021 were not settled.	I will submit the details regarding these advance payments for future audit.	Proceed as per reference regulation.
(ii)	F.R.571	Deposits of Rs.68,272,520, which exceeded a period of 10 years, were not regulated.	A committee has been appointed to correct this balance, and accordingly further work is being done.	-do-

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the council for the year ended 31 December 2022 amounted to Rs.22,041,963 as compared with excess of revenue over expenditure amounted to Rs. 40,748,205 in the preceding year.

2.2 Financial Control

Audit Observation

There was a unreconciled of Rs.1,268,062 as the balance to be corrected in the bank reconciliation prepared as at 31 December of the year under review.

Comments of the council

Currently working to correct this balance.

Recommendation

Balances should be identified and corrected.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Secretary, information 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	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
	000'	000'	000'	000'	000'	000'	000'	000'
(i) Rates and Taxes	51,160	53,969	52,599	25,435	50,100	52,066	53,962	24,065
(ii) Rent	28,130	22,153	14,780	36,195	26,624	23,419	10,985	28,822
(iii) License Fees	4,656	4,746	4,746	29	4,846	4,635	4,635	29
(iv) Other revenue	-	-	76,672	-	-	-	94,830	-
	83,946	80,868	148,797	61,659	81,570	80,120	164,412	52,916

2.3.2 Performance in Revenue Collection

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

Audit Observation

Rent

Although the arrears rent of the council was Rs.17,796,331 at the end of the previous year, the arrears rent was Rs.27,556,741 at the end of the year under review.

Comments of the council

After about 20 years, the shop rent increased to Rs.17,500.00 from Rs.1,500.00 during the valuation, and the shop owners refused to pay the shop rent and have been referred to the Valuation Department for revision.

Recommendation

Actions should be taken to recover the arrears.

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) Industrial tax of Rs.29,015 and other arrears of income of Rs.857,787 from a period of more than 5 years, an account balance of Rs.5,415,955 consisting of 6 balances brought forward from previous years without settlement which were in the receivables under current assets were also carried forward without recovery.	That necessary work is being done to correct this balance.	Arrangements should be made to recover outstanding balances.
(b) The suspense account balance of Rs. 236,425 from the year ending 31 December 2020, a creditor balance of Rs. 91,797,395 and a general supply creditor balance of Rs.4,129,122 brought forward from the years 2020 and 2021 which were in the payables under current liabilities had not been settled.	The Assistant Commissioner of Local Government has been directed to correct the balance of the suspense account. That the remaining balances will be settled and corrected and submitted in the future.	-do-
(c) The motor vehicle, which was handed over to an institution for repair on 03 February 2022, was not repaired and handed over to the council up to the audit date of 16 March 2023.	That the creditor provision has been made for payment after receiving the approval as the estimates have been submitted for the repair of the vehicle.	The motor vehicle should be repaired and ready for use.

3.2 Assets Management

Audit Observation	Comments of the council	Recommendation
(a) The rights of the Fixed assets of 31 land and buildings which are maintained by the council, had not been settled and taken action to revalue.	That the 13 of the 44 buildings identified in the audit have been rectified so far and the rest will be corrected.	Actions should be taken to revalue all land and buildings.
(b) Actions were not taken regarding the correct identification of 02 plots owned by the council which had not been identified by the board of survey.	So far, 06 of these properties have been identified and the documents have been corrected. The balance 2 properties will be corrected.	The properties owned by the council should be identified.

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| (c) | 16 playgrounds, 17 burial grounds, 13 community halls, 51 baths wells and 36 lands recorded in the council's asset register had not been verified by a property deed or a plan. | That this property will be corrected in the future through the survey. | Documents should be updated correctly. |
| (d) | No action had been taken regarding the Mitsubishi Double Cab, which had been inactive for several years, which was listed as a fixed asset in the accounts. | Since no organization received the price during the price call, it has been decided to call the price again. Accordingly, action will be taken in the future. | Repairs should be done in accordance with the procurement process. |

3.3 Procurement Management

Audit Observation

Comments of the council

Recommendation

Although it has been emphasized that formal procurement procedures should be followed in the purchase of computer software according to the assistant Commissioner of Local Government's letter No. LGD/GM/1/7/Public/2020 dated 22 December 2020, without investigation and against the guidelines for selecting a suitable bidder for the purpose of computerizing office work, computer software systems related to rates management, mixed income management, account management and stock and store management were purchased on two occasions totalling Rs.10,030,000.

For this, limited competitive bidding was done with the approval of the council. Furthermore, the Nekfa software system is successfully operating in the fields of rates, mixed income, accounts, stock and store management.

Purchases shall be made in accordance with procurement guidelines.

3.4 Human Resources Management

Audit Observation

Comments of the council

Recommendation

Employee Loans

I As per Local Government Circular No. LGD/09/2019/(I) dated 24 August 2020, the format limits of the advance "B" account of government officials were not approved.

That advance limits have been approved in the year 2023.

Action should be taken to identify the limits and to approve.

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| II | The difference of Rs.186, 200 observed between the schedules relating to employee loan balance with the employee loan registers' balance had not been checked and corrected. | That this will be re-examined and corrected and submitted to the audit. | Changes should be identified and corrected. |
| III | Although a loan balance of Rs.291,799 as irrecoverable employee loan brought forward from the previous year, no detailed schedule was submitted for the same. | A committee has been appointed to prepare reports under the program to correct 07 accounts including this balance. According to the committee report, this balance will be corrected in the future. | Arrangements should be made to submit detailed schedules. |