

1. Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Wattala 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 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 Wattala 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 Standards for Local Authorities.

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 Sri Lanka Public Sector Accounting Standards, for Local Authority 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 are in consistence with that of the previous year as per the requirement of Section 6(1)(d)(iii) of the National Audit Act No. 19 of 2018.

- (b) The financial statements of the Pradeshiya Sabha are in consistence with that of 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	Comment of the Sabha	Recommendation
(a) The Transfers done by the Government in 2021 amounting to Rs.70,977 for non-recurring expenses, had been accounted as Revenue, in the year under review.	Adjustments had been made by Journal Entries. Stated in the Notes to the revised final Accounts.	Journal Entries should be corrected.
(b) Capital Expenditure of Rs.70,977 identified in the Surplus, when computing the Other Comprehensive Income in the Comprehensive Income Statement for the year under review.	Accepted.	Should be correctly stated.
(c) Audit Fees relevant to 2020 and 2021 years amounting to Rs.1,157,742, paid in the year under review, had been debited to the Comprehensive Income Statement.	Since, Invoices for the relevant Audit Fees were received in the year 2022, this payment had been made under 2022 expense heading.	Should be correctly accounted under Accrual Basis.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comment of the Sabha	Recommendation
(a) Though, closing stock was Rs.12,239,967 as per financial statements, as per schedules. had been Rs.13,040,739 thereby a difference of Rs.800,772.	The physical balance of the Stores Stock account remains same.	Actions should be taken to identify the differences and to correct.
(b) Although, the Rates Balance as per Age Analysis of Arrears Revenue was Rs.88,190,603, since the balance as per Arrears Revenue Report had been Rs.83,978,080, there had been a difference of Rs.4,212,523	There is a difference between the balance as per Nekfa Computer System and the balance as per books of accounts. Actions will be taken to correct.	- do-

- (c) Although, the balance as per Building ledger account was Rs.460,498,734, the balance as per the Statement of Assets and Liabilities had been Rs.460,016,319 hence, a difference of Rs.482,415. The difference will be investigated - do-

1.7 Non-Compliances

1.7.1 Non Compliances with the Laws, Rules, Regulations and Management Decisions

Non-compliance with Laws, Rules, Regulations and Management Decisions are stated below.

Reference to the Laws, Rules Regulations etc.	Non- Compliance	Comment of the Sabha	Recommendation
(i) Section 24(1) of the Pradeshiya Sabha Act No. 15 th Of 1987	1,190 Roads owned by the Sabha, had not been acquired by publishing on a gazette notification.	Surveying of Roads are done by annual provisions made and actions will be taken to gazette those Roads.	Actions should be taken to acquire.
(ii) Rating & Valuation Ordinance No. 30 of 1946	61,489 Properties had been billed based on Rating Assessment of 2008.	Actions will be taken to assess rates in the future.	Actions should be taken to obtain new Rates.
(iii) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
571(1) and (2)	79 Deposits Amounting to Rs.589,378 had not been regulated.	Actions will be taken to take these Deposits to the Revenue.	Deposit balances exceeding 02 years should be regulated.
371	Advances amounting to Rs.112,420, given on 06 July 2019, had not been recovered.	Actions will be taken to recover Advances.	Actions should be taken to recover Advance amounts.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.263,219,162 as compared with the excess of revenue over expenditure amounted to Rs.120,504,997 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, Arrears Revenue.

As per the information presented by the Secretary, particulars relating to the Estimated Revenue, Billed Revenue, Collected Revenue and Arrears Revenue for the year under review are stated below.

Income Source	2022				2021			
	Estimated Income	Billed Income	Collected Income	Arrears Income as at 31st December	Estimated Income	Billed Income	Collected Income	Arrears Income as at 31st December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates & Taxes	94,142,100	105,796,333	107,098,725	83,978,079	93,667,000	96,216,178	84,629,100	85,280,471
(ii) Rent	5,640,000	11,698,138	11,839,872	8,596,534	6,950,000	7,278,297	7,028,665	8,738,268
(iii) License Fees	3,352,399	2,637,349	2,637,349	-	3,400,000	2,750,099	2,750,099	-
(iv) Other Income	765,000	2,518,182	2,518,182	-	1,020,000	3,873	3,873	-
	<u>103,899,499</u>	<u>122,650,002</u>	<u>124,094,128</u>	<u>92,574,613</u>	<u>105,037,000</u>	<u>106,248,447</u>	<u>94,411,737</u>	<u>94,018,739</u>

2.2.2 Revenue Collection Performance

Observations relating to Revenue Collection Performance are stated below.

Audit Observation	Comment of the Sabha	Recommendation
Rates and Tax		
(a) Out of the arrears Rates balance of Rs.85,280,471 as at the beginning date of the year under review, only Rs.27,760,342 had been recovered during the year.	Accepted. Actions will be taken to charge higher percentage in the future.	In terms of the regulations of the Act, Arrears Rates Balances should be charged.
(b) Out of the arrears Shop Rent balance of Rs.8,371,114 as at the beginning date of the year under review, amount recovered during the year was Rs.3,167,419.	-do-	As per the Agreements, arrears Shop Rent should be charged.

3. Operating Review

3.1 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Industrial Debtor balance had been Rs.8,942,814 as at the last date of the year under review.	Cash has not been received even though Payments Reports relating to Projects had been sent to organisations.	Debtor balances should be settled.
(b) Industrial Creditor balance had been Rs.62,524,940 as at the last date of the year under review.	The amount payable to Contractors in respect of Projects.	Creditor balances should be settled.

3.2 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
06 Vehicles amounting to Rs.36,193,861 received from other state institutions for the use of the Sabha had not been acquired even as of 23 April 2023.	Actions are being taken to acquire.	Should be acquired.

3.3 Human Resources Management

Audit Observation	Comment of the Sabha	Recommendation
As at the last date of the year under review, there were outstanding Staff Loans of 29 officers who were transferred, retired, died vacated office due to other reasons, amounting to Rs.1,188,867.	Relevant monies had not been recovered, even though, informed by letters.	The Staff Loan balances should be recovered.