

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Panadura Urban Council for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out 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 provisions of the National Audit Act, No. 19 of 2018 and Sub-section 181(1) of the Urban Council Ordinance (Chapter 255). My comments and observations which I consider should be reported 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 Panadura Urban Council as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Authorities.

1.2 Qualified Opinion

A qualified opinion on financial statements will be expressed based 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 Government Authorities, and for such internal control as management determines 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 Urban Council's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Urban Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Urban Council.

1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Urban Council's 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 Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council;
- Whether it has performed according to its powers, functions and duties; and

- Whether the resources of the Urban Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.3 Report on Other Legal Requirements

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

- The financial statements of the Urban Council are consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The following recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned 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 Council	Recommendation
(a) The profits from the revaluation of property, plant and equipment had not been separately presented in the statement of changes in equity.	Action will be taken to correct this in the ensuing year.	Revaluation profit should be separately shown in the statement of changes in equity.
(b) In terms of the third paragraph of the Sri Lanka Public Sector Accounting Standard for the Local Authorities, the cash flow statement for the year under review had not been prepared.	-Do-	Action should be taken in accordance with the Sri Lanka Public Sector Accounting Standard.

1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Council	Recommendation
(a) Tourist Development Act, No.14 of 1968 as per Section 164 (2) of the Urban Council Ordinance.	Charges had not been levied from 02 hotels registered with the Tourist Board.	The Dragon Hotel has agreed to pay charges in the ensuing year and action is being taken to ascertain whether the Navro Hotel has been registered with the Tourist Board. Requests	Action should be taken in accordance with the Urban Council Ordinance.

have been made from the Jetvin Hotel to provide the account statements certified by a chartered accountant.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
F.R.371

Value of advance amounting to Rs. 1,075,318 that continued to exist from the period before 2000 had not been recovered even during the year under review.

Under the approval of the Council, a request has been made to the Commissioner of Local Government in order to write off Rs. 1,051,250 from the receivable advance of Rs. 1,075,318.

Action should be taken to recover the advances.

- (c) By-laws published in the Gazette No.2155 dated 20 December 2019 of the Democratic Socialist Republic of Sri Lanka

Charges of Rs. 14,500 remained outstanding from 13 advertisement boards as at 31 December of the year under review.

A sum of Rs.33,200 has been received from 11 advertisement boards as at 25 March 2023 and Rs.14,500 further remained receivable from 13 advertisement boards.

Advertisement boards income related to the year should be accounted for.

- (d) Financial Circular No.08/2020 dated 09 December 2020 of the Chief Secretary of Western Province.

A tractor that has been in need of repairs from the year 2014 has not been repaired even by the end of the year under review.

Although approval has been obtained either to repair or dispose of the tractor on the Mechanical Engineer's recommendation, action will be taken to make it condemned as a large sum of money is required to attend to repairs.

Action should be taken in accordance with Circulars.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs. 74,959,597 as at 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 63,731,152.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

Particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Rates and Taxes	74,860,300	77,321,357	54,822,971	22,498,385	74,780,300	74,633,900	73,132,658	1,501,242
Rents	10,152,100	6,820,587	2,747,037	4,073,550	1,374,960	13,749,600	8,783,532	4,966,068
License Fees	1,797,100	458,500	458,500	-	3,445,000	3,207,000	1,519,888	1,687,112
Other Revenue	236,078,610	1,201,679	1,201,679	-	78,137,700	78,137,700	72,133,459	6,004,241
Total	322,888,110	85,802,123	59,230,187	26,571,935	157,737,960	169,728,200	155,569,537	14,158,663

2.2.2 Performance in the Collection of Revenue

Observations on the performance related to the collection of revenue of the Council are as follows.

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Tax		
Outstanding rates as at the beginning of the year under review amounted to Rs. 43,648,051 and it was Rs. 32,125,476 as at 31 December 2022.	A certain amount of the arrears has been recovered.	Action should be taken to recover the revenue in arrears.
(b) Trade Stall Rent		
The outstanding trade stall rent as at the beginning of the year under review amounted to Rs. 12,815,285 and that outstanding balance had improved up to Rs. 14,276,778 by 31 December 2022.	-Do-	-Do-

- (c) **Stamp Duty**
 Stamp duty receivable from the Chief Secretary of the Provincial Council and the other authorities as at 31 December 2022 was Rs. 146,421,135. Necessary steps are being taken to recover this money. Action should be taken to recover the stamp duty expeditiously.

3 **Operating Review**

3.1 **Performance**

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services, and public thoroughfares and generally with the protection and promotion of the comfort, convenience, and welfare of the people.

Audit Observation	Comment of the Council	Recommendation
(a) Public Complaints		
Out of 61 public complaints received during the year 2022, 16 complaints had not been settled even by 23 February 2023.	There are 16 complaints further in active position.	Action should be taken to settle public complaints.
(b) Approval of Land and Building Plans		
Out of 165 applications for land lots plans received during the year 2022, 20 plans had not been approved even as at 31 December 2022, while 18 plans out of 96 building plans had not been approved even as at that date.	Twenty land lots plans and 18 building plans are yet to be approved.	Necessary actions should be taken expeditiously regarding applications.
(c) Sustainable Development and Action Plan		
After planning projects from 2015 to 2030 to achieve sustainable development goals, a long-term plan had been prepared. Nevertheless, specific programmes expected to be implemented within the year 2022 had not been incorporated therein.	Three specific programmes expected to be implemented in the year 2022 and 03 related sustainable goals expected to be achieved have been included in the Action Plan for the year 2022.	Annual plans should be prepared to achieve long-term targets.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The value of 09 lands owned by the Panadura Urban Council had not been assessed.	The assessed value of those land will be obtained and submitted for accounting activities in the future.	The value of the lands belonging to the Council should be identified and brought to account.
(b) There was a balance of Rs. 4,539,351 in a bank account maintained in the National Savings Bank on behalf of the Urban Development Authority and it had not been utilized for effective financial administration purposes with the approval of the Urban Development Authority.	It has been proposed to use this amount for the Thanthirimale Library Construction Project and further, action will be taken accordingly.	It should be utilized for effective purposes with the approval of the Urban Development Authority.

.33 Underutilized Assets

Audit Observation	Comment of the Council	Recommendation
Nekfa Office Software System In order to computerize the administrative affairs of the Urban Council, a software system with 07 subjects had been purchased from the Nekfa Company in the year 2017 and a sum of Rs. 178,500 had been paid as the service charges of the software system. Nevertheless, the software has not been operated thus far.	As the currently used payroll software is more convenient than obtaining this software system, it is being used.	The charges paid without obtaining services should be recovered.