

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Seethawaka Pradeshiya Sabha 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 172(1) of the Pradeshiya Sabhas Act, No.15 of 1987. My comments and observations which I consider should be presented 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 Seethawaka Pradeshiya Sabha as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities.

1.2 Basis for 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 Pradeshiya Sabha's financial reporting process.

As per Sub-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 of the Pradeshiya Sabha.

1.4 Scope of Audit (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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to 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 Pradeshiya Sabha'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 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

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

- (a) The financial Statements of the Pradeshiya Sabha 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.
- (b) The recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations for the Preparation of Financial Statements

1.6.1 Accounting Policies

According to Sri Lanka Public Sector Accounting Standard – 2017 for Local Government Authorities, the following matters had not been disclosed in the financial statements.

Audit Observation	Comments of the Sabha	Recommendation
(a) According to Rule No.99 on accounting relating to financial administration of Pradeshiya Sabhas, imposed by Gazette Extraordinary No.2155/8 of 24 December 2019, budgeted details of financial statements, that is, the reasons for disclosures etc. relating to the initial budget and final budget and quantitative differences between them if any, had not been made.	Replies have not been made.	Reasons for the change in budgeted balances should be disclosed.
(b) Vestings of the Government included in other comprehensive income, unsaturated in the revenue, should be indicated as separate components of the equity in the statement of assets and liabilities. However, those assets had not been identified and accounted.	As money spent for bridges, culverts and thoroughfares in the two years of 2021, 2022 could not be separately identified, it had not been indicated as a separate component of the equity in the statement of assets and liabilities and action will be taken to make relevant rectifications in the year 2023.	Assets should be accurately accounted.
(c) In terms of Sub-section vi of Rule No.227 of part iv (a) of the Extraordinary Gazette Notification No.2155/8 of 24 December 2019, the authority that approved the write off and the value of write offs receivable from exchange transactions to be unrecoverable during the period, should be generally disclosed. However, approvals for removal of balances totalling Rs.27,365,435 written off in the year under review not approved by the Sabha, had not been disclosed.	Approval of the Annual General Meeting had not been obtained for removing the creditors of Rs.26,609,446 and the decentralised aid of Rs.755,989 and action will be taken accordingly in future.	Writing off of balances should be generally disclosed.

1.6.2 Accounting Deficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The Buildings Account (capital assets) relating to Journal entry 15-2022, had been debited by Rs.10,811,089. Nevertheless, only a sum of Rs.6,223,089 had been indicated in the said account in the ledger.	Final accounts as at 31.12.2023 will be rectified in the year.	The value should be accurately accounted.
(b)	A sum of Rs.5,229,822 paid for work-in-progress had been accounted in the balance of buildings as at 31 December of the year under review.	-do-	Assets should be accounted accurately.
(c)	The value of rates in arrears as at the end of the year under review had been understated by Rs.2,454,871. .	-do-	The balance of rates receivable should be accounted accurately.
(d)	Revenue from rates received in advance as at the end of the year under review had been understated by Rs.208,300.	-do-	Revenue from rates should be accounted accurately.
(e)	Stall rentals receivable as at the end of the year under review had been understated by Rs.468,614.	-do-	Revenue from stall rentals should be accounted accurately.
(f)	Revenue from exchange transactions amounting to Rs.1,017,457 as at 31 December of the year under review and the balance receivable from exchange transactions amounting to Rs.1,038,648 had been overstated in accounts .	-do-	Interest income from fixed deposits should be accounted accurately.
(g)	According to Journal entry 15-2022, the computers valued at Rs.301,094 purchased in the year under review had been understated in accounts. .	-do-	Assets should be accounted accurately.
(h)	The bank loan interest of Rs.109,901 payable to the Domestic Credit Development Fund had not been identified and brought to account.	-do-	Interest on loans should be accounted accurately.
(i)	In the depreciation of fixed assets in the year under review, fittings valued at Rs.595,389 had been understated in accounts while computers amounting to Rs.31,237 and	-do-	Depreciation of assets should be accounted accurately.

office equipment amounting to Rs.14,674 had been overstated in accounts.

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| (j) | Discounts given amounting to Rs.180,540 included in rates received in advance relating to the prior year had not been taken to the Discounts Given Account of the year under review . | -do- | Discounts should be accounted accurately. |
| (k) | The administrative expenditure of October 2022 had been understated by Rs.229,697 in the financial statements. | -do- | Expenditure should be accounted accurately. |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
According to financial statements, the balance relating to 02 Items of Account as at 31 December 2022 was Rs.31,843,762. However, according to relevant schedules, the balance was Rs.32,886,504, thus resulting in a difference of Rs.1,042,742 between the balances.	Replies have not been made.	Should be accounted accurately.

1.7 Non-compliances

Non-compliances with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions, appear below.

Reference to Non-compliance Laws, Rules, Regulations etc.	Comments of the Sabha	Recommendation
Financial Regulations Financial Regulation 571	Miscellaneous deposits valued at Rs.12,435,723 lapsed over 03 years as at 31 December 2022 had not been disposed of.	Action is being taken to credit to the revenue, deposit balances up to 31.12.2019 of the Deposits Register as at 31.12.2022 Action should be taken to credit deposit balances to the revenue.

2. Financial Review

2.1 Financial Results

According to financial statements presented, the revenue over expenditure of the Sabha for the year ended 31 December 2022 was Rs.119,570,029 as compared with the corresponding revenue over expenditure of Rs.147,778,193 for the preceding year.

2.2 Control of Revenue

2.2.1 Revenue estimated, billed, collected and in arrears

Details on revenue estimated, billed, collected and in arrears presented relating to the year under review and the preceding year are as follows.

According to the information made available by the Secretary, details on revenue estimated, billed, collected and in arrears presented relating to the year under review and the preceding year, appear below.

Source of Revenue	Estimated Revenue	2022		Total Arrears as at 31 December 2021	Estimated Revenue	Billed Revenue	2021	
		Billed Revenue	Collected Revenue				Collected Revenue	Total Arrears as at 31 December 2021
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
(i) Rates and Taxes	34,651	39,837	35,977	3,860	34,482	21,937	25,264	13,259
(ii) Rentals	43,300	33,031	31,924	1,107	32,439	22,344	27,019	1,175
(iii) Licence Fees	3,266	2,448	2,448	-	3,167	2,347	2,689	-
(iv) Other Revenue	301,204	202,276	186,507	15,769	318,803	318,803	217,266	
	<u>382,421</u>	<u>277,592</u>	<u>256,856</u>	<u>20,736</u>	<u>388,891</u>	<u>365,431</u>	<u>272,238</u>	<u>14,434</u>

2.2.2 Performance of Revenue Collection

Observations on the performance of revenue collection of the Sabha, appear below.

Audit Observation	Comments of the Sabha	Recommendation
(a) As compared with the revenue collected in the prior year amounting to Rs.272.2 million, the revenue collected in the year under review had decreased up to Rs.256.8 million, by Rs.15.4 million.	Replies have not been made.	The Sabha should attempt to maximize profit.

(b) Rentals

Action had not been taken in terms of agreements to recover revenue in arrears from stall rentals amounting to Rs.847,320 as at the end of the year under review.

It has been informed by letters to recover arrears.

Action should be taken to collect revenue.

(c) Court Fines and Stamp Duty

Court fines and stamp duty receivable as at 31 December 2022 from the Chief Secretary of the Provincial Council and other authorities amounted to Rs.70,000,000 and Rs.241,114,873 respectively.

Relevant information has been submitted through schedules.

Action should be taken to call for arrears of revenue.

(d) Provincial Council and Decentralized Assistance Receivable

Provincial Council and decentralized assistance receivable as at the end of the year under review was Rs.19,249,118.

Of the sum of Rs.32,838,959 receivable for works carried out up to 31.12.2021, a sum of Rs.13,589,841 has been received from 01.01.2023 up to 06.04.2023.

Action should be taken to obtain Provincial Council and decentralized assistance.

3. Operating Review

3.1 Identified Losses

Audit Observation	Comments of the Sabha	Recommendation
(a) As the Cab vehicle bearing No.WPPE-6879 had met with an accident on 09 May 2022, the repairs of the said vehicle had been assigned to a private institution for a sum of Rs.3,838,000 and the Sri Lanka Insurance Corporation had agreed to pay indemnities therefor subject to a maximum of Rs.3,000,000. Despite having elapsed a period of 9 months after paying an advance of Rs.1,000,000 to the relevant garage on 12 August 2022, the said repairs had not been completed up to now. Even though a period of one year had elapsed after the	The Cab vehicle bearing No.WPPE-6879 belonging to the Sabha had been handed over to the N.I.G. Motors on 01 August 2022 on the agreement of returning within two months after being repaired for a sum of Rs.3,838,000. An advance of Rs.1,000,000 had been paid to the relevant institution on 12 August 2022 and the Sri Lanka Insurance Corporation had agreed to pay indemnities subject to a maximum of Rs.3,000,000. Even though it	As agreed, the vehicle should be repaired, the loss assessed and action taken in terms of Financial Regulations relating to relevant parties.

accident occurred, the reports of formal inquiries had not been submitted to the relevant parties within the prescribed period in terms of F.R.104(1), (2), (3) and (4)

was briefed from time to time, the Cab vehicle had not been repaired and handed over to the Sabha by now and a complaint has been lodged at the Police on 31 March 2023 against the owner of the institution.

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| (b) A number of 338 library books valued at Rs.87,554 of five libraries functioning under the Sabha, had been misplaced as at 31 December 2022. | According to the survey conducted on library books as at 31.12.2022, replies have been made to the Audit Queries presented relating to misplacement of 338 books valued at Rs.87,554. | Internal control should be regularized. |
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3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) According to the Creditors' Age Analysis as at 31 December 2022, the loan balance payable as at 31 December 2021 was Rs.39,276,547.	The sum of Rs.39,276,547 allocated as creditors up to 31.12.2021, has been allocated as it may have to be paid in the year 2023.	Action should be taken to settle creditors' balances.
(b) Of capital grants valued at Rs.167,318,953 received for development activities from the year 2020 up to 31 December 2022, action had not been taken to identify the value of the capital grants entitled to the Sabha.	Of capital grants belonging to the Sabha valued at Rs.167,318,953 received to the Sabha from the year 2020 up to 31 December 2022, the amount of capital grants entitled to the Sabha will be identified and adjusted in accounts in the preparation of accounts of the year 2023.	Action should be taken to identify and account capital grants.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
The possession of the Padukka public playground had been handed over to the Pradeshiya Sabha by the Urban Development Authority on 24 February 2011.	Even though requests have been made for vesting the clear title of the playground in the Sabha, it had not been so done up to now. The playground is maintained by	Vesting activities should be expedited.

Even though 11 years had elapsed the Sabha and revenue is earned thereafter, the clear title thereof by renting it out. had not been obtained so far by the Sabha.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Sabha	Recommendation
(a) Even though a sum of Rs.2,000,000 had been estimated as assistance for providing toilet facilities to low income families in the year under review, only a sum of Rs.270,000 had been spent therefor.	Money allocated for purchase of goods was inadequate due to the increase in price of goods.	Action should be taken to complete the intended purpose.
(b) Even though provision of Rs.7,600,000 had been made for 04 miscellaneous functions in the Plan, only a sum of Rs.2,513,469 had been spent therefor in the year under review and the financial progress thereof was 33 per cent.	Expenditure has been saved due to less conduct of training workshops, decrease in the visits of mothers to clinics, following the circular on limiting expenditure and non-distribution of medicine kits as a result of minimization of the Covid pandemic.	Programmes set out in the Action Plan should be implemented.