

Laggala- Pallegama Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Laggala- Pallegama Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Balance sheet as at 31 December 2022, Income and Expenditure Account 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 National Audit Act No.19 of 2018. 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 Laggala-Pallegama Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I express a qualified opinion regarding financial statement 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 Generally Accepted Accounting Practices 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 presented 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 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 Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The stamp duty revenue at the end of the year under review, has been overstated by Rs.994,850.	It will be corrected in the preparation of the final account 2023	It should be properly accounted for.
(b) At the end of the year under review, the receivables of key money from 02 stalls amounting to Rs.162,887 were not accounted for.	- Do -	- Do -
(c) Rs. 2,953,840, which was sent to settle the bills of 06 construction projects last year, was accounted under capital assistance in the reviewed year.	It is accepted and will be corrected.	- Do -
(d) The amount received from the Central Province Council for the year under review had been overstated by Rs.510,448.	- Do -	- Do -
(e) During the rectification of the mistake of omitting the value of vehicle batteries from the last year's accounts, the accumulated fund and stock balance were understated by Rs.126,000 due to erroneous accounting.	No comments	- Do -
(f) The office equipment and machinery purchased during the year under review, amounting to Rs.97,580, was not capitalized.	It is accepted and will be corrected.	- Do -

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
(a) There was a difference of Rs.21,302,040 when reconciling the balance as per corresponding reports with the balance as per financial statements of 11 account subjects.	That, there are errors in the schedules and action will be taken to correct the schedules	Reasons should be revealed and corrected.
(b) There was a difference of Rs. 257,300 between the balances related to 09 income subjects shown in the income and expenditure account prepared for the year ended December 31 of the year under review and the balances of the related source documents.	In the preparation of the final account for 2023, it will be corrected	Account balance should be corrected.

1.6.3 Suspense Accounts

Audit Observation	Comments of the Sabha	Recommendation
The opening credit balance of the suspense account of Rs.2,241,938 at the year under review had not been settled even in the reviewed year.	It will be corrected in the next accounting year	Balances should be identified and settled.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-submission of Fixed asset registry, deeds, balance confirmations, debtors documents and schedules relating to 09 account balances amounting to Rs.21,137,791 as on December 31 of the year under review, it could not be satisfactorily verified.	That, the schedule will be presented in the preparation of the final accounts of the year 2023	Documents, schedules and files related to account balances should be prepared.

1.7 Non-Compliance

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

Below are the cases where rules, regulations and management decisions were not complied with.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Rules and by laws			
Rule No. 02 of Central Provincial Council Notification under Extraordinary Gazette No. 1900/8 dated February 02, 2015	Rs.336,000 was paid as fuel allowances of the members without obtaining bills to reimburse the expenses.	It is accepted and fuel allowance was paid for the respective months only to the members who submitted the running charts.	Action should be taken as per the rules mentioned in the gazette notification.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
I. Financial regulations 371(5)	Lapsed sub imprests of Rs.153,200 given in 07 cases were not settled.	It will be corrected in the future	Financial regulations should be followed.
II. Financial regulation 571(3)	Although a provision of Rs.1,343,710 was received from the Local Government Commissioner on January 16, 2016 for the repair of a cab, due to the fact that the repair was not carried out properly, the payment to the concerned institution was suspended, so the money received has been retained in the general deposit account without being returned.	That the payment has not been made since the repairs have not been done properly, and Even if the company is requested to fix the repair, it has not been done so far.	Repairs should be done promptly and settled.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.871,619 as against the excess of revenue over recurrent expenditure amounted to Rs. 1,526,446 in the preceding year

2.2 Revenue Administration

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

According to the information presented by the Secretary 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 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs	Rs	Rs	Rs.	Rs	Rs.	Rs.
(i). Rates and Taxes	536,000	551,165	467,145	300,550	835,000	688,093	659,428	216,530
(ii). Rent	3,902,440	1,231,131	1,205,735	733,551	8,915,200	2,954,267	2,176,393	858,766
(iii). License Fees	328,000	67,700	67,700	-	350,000	200,450	200,450	-
(iv). Other revenue	3,022,300	2,527,175	2,183,648	1,131,910	2,296,000	1,623,443	1,268,470	1,201,012
Total	7,788,740	4,377,171	3,924,228	2,166,011	12,396,200	5,466,253	4,304,741	2,276,308

2.2.2 Performance in Revenue Collection

Observations related to performance in revenue collection of the Sabha are given below

Audit Observation

(a) Rent

At the end of the year under review, the outstanding stall rent was Rs. 59,151, and out of them the stall rent of Rs. 11,400 due from 5 years ago for 05 stalls located in the old city was not collected.

Comments of the Recommendation Sabha

Action will be taken to collect the stall rent.

Arrangements should be made to recover the arrears of income.

(b) Other revenue

Out of the garbage tax revenue of Rs.128,970 billed in the reviewed year, Rs.16,110, that is 12 percent of the billed garbage tax income had been collected and at the end of the reviewed year, the garbage tax of Rs.281,940 had not been collected.

Actions are being taken to recover the arrears at present.

Arrears should be recovered.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The total of 05 accounts receivable balances at the end of the year under review was Rs.464,482.	In fact, there is no such balance, and in this regard, if there is any outstanding balance, it will be checked and recovered.	Outstanding balance should be settled.
(b) An capital creditor balance of Rs.70,489 shown in the financial statements since the year 2013, had not been settled.	No comments.	Outstanding balances should be settled.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
A license fee of Rs.96, 000 was not being able to collect from 32 businesses whose environmental protection licenses had expired during the period from 2018 to 2022, due to the fact that they had not renewed their licenses. Also, no annual survey was conducted after 2020 to identify businesses that should obtain environmental license..	Business identification and survey activities have been implemented and environmental protection license. Will be issued soon.	The survey should be done and arrangements should be made to issue environmental license.

3.3 Transactions of Contentious Nature

Audit Observation	Comments of the Sabha	Recommendation
In addition to paying the acting allowance to the acting officer who was appointed to cover the duty of the technical officer, Rs. 146,101 was paid as traveling expenses and subsistence allowances for reporting to duty.	That the Dambulla Pradeshiya Sabha Secretary has been informed to recover the travel expenses and subsistence allowances thus obtained from the Pradeshiya Sabha.	Financial regulations should be followed

3.4 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
A total of Rs.9, 092,144 worth of 03 vehicles, 09 units of assets of which value is unrecognized and a generator remained idle and underutilized for a period between 02 and 20 years.	It will be repaired and put to use	Action should be taken to repair and put to use or dispose of.

3.5 Delays in projects, tasks or capital works

Audit Observation	Comments of the Sabha	Recommendation
While only 20 percent of the work done mentioned in the bill related to the construction of the ground floor of Pitawala Tourism Centre, which is being built under the Provincial Specific Development Grants had been completed according to the estimate of Rs. 4,000,000 last year and also the work done had not been completed, the technical officer recommended that the work has been completed and Rs. .3,354,894 bills were sent to the Local Government Department on December 31, 2021, but at the end of the year under review, the project was abandoned without completing the contracted works.	The project could not be completed due to the shortage of raw materials and the frequent increase in the prices of raw materials in those days. That no payment has been made to the contractor despite the final bills being prepared and submitted to retain the provision money given.	Bills should be prepared for work done and construction should be completed.

3.6 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
(a) When comparing the approved staff and the actual staff of the Sabha, there was a shortage of 11 officers for 07 positions.	In this regard, the top management will be informed on a monthly basis.	Vacancies should be filled.
(b) There were no corroborating reports regarding 108 days when a transferred Development Officer was engaged in field inspections during the period from 04th April to 31st December of the year under review and during that time, he had gone out of the office for 76 days without permission. On 13 out of 14 days of duty in the office, the time of leaving the office was not recorded and signatures were not kept in the attendance register. During this period, Rs.443, 835 had been paid as salaries.	Action will be taken to correct.	Relevant investigations should be conducted and necessary action should be taken.
(c) As of the last day of the reviewed year, a loan balance of Rs. 503,194 which has been outstanding for 10 months to 11 years had not been collected from 06 employees who were retired, transferred and suspended from work.	The loan amount is being collected.	Loan balances should be recovered.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Sabha	Recommendation
According to the circular of the Director General of Management Audit Department No. DMA/01-219(1) dated January 12, 2021, an internal audit plan should be prepared and submitted for the approval of the Audit and Management Committee, but the said circular was not followed.	It will be submitted to the next Audit and Management Committee for approval	Circular instructions should be followed.

4.2 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
<p>When comparing the estimated revenue and expenditure with the actual revenue and expenditure in the budget prepared for the year under review, variations from 13 percent to 659 percent were observed in 29 expenditure subjects and 14 percent to 99 percent were saved in 32 expenditure subjects.. Provisions in another 11 expenditure subjects had been saved by 100 per cent. Due to this, the budget was not used as an effective control tool.</p>	<p>Attention will be paid in the preparation of the budget for 2024</p>	<p>Requirements should be identified and budget should be prepared.</p>