

Pathadumbara Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pathadumbara Pradeshiya Sabha for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, 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 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Pathadumbara 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

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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, 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 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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 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 the Pradeshiya Sabha 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- The Financial Statements of the Pradeshiya Sabha are consistent with that of the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required by 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 Pradeshiya Sabha	Recommendation
a) The assessment value of motor vehicles and carts had been understated by Rs.3,640,000 in the accounts.	Corrective measures will be taken in the ensuing year.	Accuracy should be ensured in the accounting process.
b) Furniture and equipment valued at Rs.2,496,000 purchased in the year under review, had also been brought to accounts under the furniture and the stock of general stores as well.	- Do.	- Do.
c) The interest on fixed deposits receivable for the year under review, had been overstated by Rs.1,565,730 in the accounts.	- Do.	- Do.
d) Income earned from backhoeloaders in the year under review, had been understated by Rs.260,000 in the accounts.	- Do.	- Do.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comment of the Pradeshiya Sabha	Recommendation
A difference of Rs. 21,337,156 existed between the balances shown in 14 items of accounts mentioned in the financial statements and the balances of relevant schedules.	Corrective measures will be taken by examining reasons for the difference.	Accounts balances should be corrected.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Pradeshiya Sabha	Recommendation
a) Information required to verify the balance of security deposit balance amounting to Rs. 231,860 relating to 07 libraries of the Sabha.	The register will be maintained correctly in due course.	The registers should be maintained.
b) Schedules had not been made available with respect to 02 balance of assets totalling Rs.14,910,192.	Action has been taken to reconcile the schedules in the ensuing year.	Necessary schedules should be maintained.

1.7 Non-compliances

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

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules, and Regulations	Non-compliance	Comment of the Sabha	Recommendation
Financial Regulation 1646 of the Democratic Socialist Republic of Sri Lanka.	Daily running charts of 20 vehicles relating to the year under review had not been made available.	Will be provided soon.	Action should be taken in terms of the Financial Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue of the Pradeshiya Sabha in excess of the recurrent expenditure for the year ended as at 31 December of the year under review, amounted to Rs. 4,529,254 as compared to the corresponding revenue in excess of the recurrent expenditure for the preceding year amounting to Rs. 23,269,675.

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 as per information presented by the Chairman, are given below.

Source of Revenue	2022				2021			
	Estimated Revenue Fund	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue Fund	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .
(i) Rates and Taxes	5,793,650	7,398,528	7,771,493	4,967,208	5,768,686	7,490,268	11,712,568	5,340,173
(ii) Rents	5,137,560	4,185,954	4,632,263	339,027	3,358,392	3,550,993	3,065,900	785,336
(iii) License Fees	2,728,000	3,873,232	3,873,232	-	2,282,000	3,003,365	3,003,365	-
(iv) Other Income	66,505,449	12,730,656	55,399,234	22,538,404	59,370,220	24,537,111	29,697,386	65,206,982
	<u>80,164,659</u>	<u>28,188,370</u>	<u>71,676,222</u>	<u>27,844,639</u>	<u>70,779,298</u>	<u>38,581,737</u>	<u>47,479,219</u>	<u>71,332,491</u>

2.2.2 Performance in Collecting Revenue

Audit Observation	Comment of the Pradeshiya Sabha	Recommendation
a) Rates and taxes		
(i.) The balance of due rates totaled Rs.4,967,208 by the end of the year under review. The total of 195 properties of which the outstanding rates per unit exceeded Rs.5,000, was Rs.1,792,345 and action had not been for recovery.	Will be recovered through mobile service	Due revenue should be collected.
(ii.) Assessment of values should be revised once in five years in terms of Section 20 of the Rating and Valuation Ordinance No. 30 of 1946. Nevertheless, rates had been recovered based on an assessment done in the year 2011.	A new assessment will be made soon.	Properties should be assessed properly.
b) Other Income		
The balance of outstanding water charges totaled Rs.1,208,005 by the end of the year under review, and out of 18 water consumption units each exceeding Rs.5,000, water charges totalling Rs.157,276 had not been recovered.	Action has been taken to conduct mobile services	Outstanding balances should be recovered.

2.2.3 Court Fines and Stamp Fees

Court fines and stamp fees receivable as at 31 December of the year under review from the Chief Secretary of the Provincial Council and other authorities, totaled Rs.74,667 and Rs.17,472,284 respectively. Action will be taken for recovery of the dues. Stamp fees and court fines should be recovered.

3. Operating Review

3.1 Execution of Duties Vested through the Act

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act 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 Pradeshiya Sabha	Recommendation
<p>a) As for the programme to produce organic fertilizer with Japanese technical assistance implemented by the Pradeshiya Sabha Kundasale in collaboration with Pradeshiya Sabha, Pathadumbara, a memorandum of understanding had been entered into between both parties on 12 October 2016. However, the Pradeshiya Sabha, Kundasale had not complied with the agreement since July 2022. Although the agreement mentioned how a conflict should be resolved and recovery of loss due to noncompliance with the agreement, this issue had not been settled even by the date of audit on 21 March 2023.</p>	<p>It is planned to take action as per the agreement.</p>	<p>The agreement should be complied with.</p>

- b) Section 78 (1) of the Pradeshiya Sabha Act, No. 15 of 1987 states that the Sabha should act as the authority responsible for public health, Nevertheless, water had been distributed to people without examining water samples of 05 water schemes implemented in the division of the Sabha. Water samples will be examined annually. Water samples should be examined, and purified water should be distributed.

3.2 Management Inefficiencies

Audit Observation	Comment of the Pradeshiya Sabha	Recommendation
a) There existed an industrial debtors balance of Rs.4,473,240 as at 31 December of the year under review, and action had not been taken to recover a sum of Rs.3,749,238 continued to exist over a period of 01-05 years and Rs.724,002 existed over 05 years therein.	Funds had not been reimbursed by the Ministry of Local Government.	The receivable balances should be recovered.
b) There existed a creditors balance of Rs.45,502,403 as at 31 December of the year under review, and action had not been taken to settle balances totaling Rs.1,859,473 continued to exist over a period of 3-5 years and a balance of Rs.1,265,827 continued to exist therein over 05 years.	Will be looked into and settled.	Payable balances should be settled.
c) Items worth Rs.215,570 which had not existed physically by the end of the year under review, had been shown under machines and machinery.	Corrective measures will be taken on the registers.	Should be looked into and corrective measures should be taken.
d) Rights to the lands and buildings valued at Rs. 62,790,706 as at the end of the year under review, had not been taken over.	Action has been taken to acquire the rights.	Rights should be acquired.

- e) Ownership of 02 vehicles being used Preliminary action has been - Do.
by the Sabha, had not been taken taken to take over the
over. ownership.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Pradeshiya Sabha	Recommendation
Four vehicles valued at Rs. 5,060,000 and a machine the value of which had not been identified, remained idle and underutilized over periods ranging between 06-13 years.	Action will be taken either to repair or put on auction.	Action should be taken either to repair or auction.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Pradeshiya Sabha	Recommendation
The comparison of estimated revenue and expenditure as per the budget prepared for the year under review with the actuals, revealed variances ranging from 18 – 87 per cent relating to 08 Items of Revenue whereas variances ranging from 08 -97 per cent existed relating to 08 Items of Expenditure. As such, the budget had not been made use of as an effective instrument of control.	Budget will be prepared in due course by avoiding such deficiencies.	The budget should be prepared attentively and taking into account the requirements.

4.2 Sustainable Development Goals

Audit Observation	Comment of the Pradeshiya Sabha	Recommendation
Although the Sabha had identified sustainable development goals and targets in accordance with provisions of the Sustainable Development Act, no action had been taken to achieve them.	Action has been taken up to certain extent in order to achieve those objectives.	Action should be taken in accordance with provisions of the Act.