

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pannala Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, 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 Pannala Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities

1.2 Basis for Qualified Opinion

I express qualified opinion 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 Generally Accepted Accounting Principles, 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 is 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 the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Even though the assessed value of the water bowser owned by the Sabha was Rs. 950,000 as at 31 December 2022, it had been accounted for as Rs. 450,000 .	That will be corrected in the financial statement of the year 2023 .	It should be accurately accounted for.
(b)	Three Piyestra type steel cupboards and 25 plastic chairs valued at Rs.138,750, and 15 machines and machinery valued at Rs.333,805 had not been accounted for as fixed assets.	-do-	-do-
(c)	The value of gas stock as at 31 December of the year under review amounted to Rs.71,243 had been accounted for twice by journal entries 59 and 60 .	-do-	Stocks should be properly accounted for.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
There was a total difference of Rs.98,695,020 between the financial statements and schedules of 16 accounting objects.	Actions will be taken to correct the existing balance in the financial statements and the balance appear in schedules.	The balances should be identified accurately and accounted for.

1.7 Non –compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations Management Decisions etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 371	Although the advance should be settled as soon as the respective task is completed there was an outstanding balance of advances amounted to Rs. 329,564.	The mistake will be rectified in the future as per the Financial Regulations.	Actions should be taken in terms of Financial Regulations.
(ii) Financial Regulation 571	A number of 24 lapsed deposits amounting to Rs.4,483,759 had not been take into accounts.	-do-	-do-

(b) Public Finance
Circular No. 01/2020
dated 28 August 2022

Section 8.1.1

Although in case of transfer of assets, a complete document containing the value of the relevant asset on that date should be prepared, it had not been so done. The relevant subject officers were informed to prepare a complete document containing the value of the assets. It should act as per the instructions in the relevant circular.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2022 was Rs. 96,940,370 and the income exceeding the recurrent expenditure of the preceding year was Rs. 84,242,735.

2.2 Revenue Administration

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

The estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December (Billed Revenue)	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December (Billed Revenue)
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	15,362	13,932	14,257	2,562	15,523	11,974	11,803	3,025
Rents	32,469	30,154	26,730	3,674	30,391	27,977	19,893	5,809
License Fees	1,551	956	996	--	1,661	853	853	-
Other Income	20,564	16,674	17,021	-	369,679	21,382	21,391	-
Total	69,946	61,716	59,004	6,236	417,254	62,186	53,940	8,834

2.2.2 Performance on Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Rates and Taxes Actions had not been taken by the Sabha to collect arrears of rates and a balance of tax amounted to Rs.2,562,508 as at 31 December 2022 .</p>	<p>Actions are being taken to recover arrears of rates and taxes.</p>	<p>Actions should be taken to collect arrears balances promptly.</p>
<p>(b) Rents An arrears of lease rent amounted to Rs. 2,961,693 had to be received as at 31 December of the year under review.</p>	<p>Conducting monthly income programmes and collection activities in the field for the recovery of rent arrears.</p>	<p>Actions should be taken to collect arrears balances promptly.</p>
<p>(c) Court Fines and Stamp Duties The court fines and stamp duties receivable as at 31 December 2022 from the Chief Secretary of the Provincial Council and Other Authorities were Rs.10,192,722 and Rs.219,324,293 respectively.</p>	<p>Actions are being taken to collect of court fines and stamp duty receivable as at 31 December 2022 .</p>	<p>Actions should be taken to bring arrears balances promptly.</p>

3. Operational Review

3.1 Performing of Tasks set by the Act

The matters observed in respect of executing of functions that should have been performed by the Sabha such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 3 of the Pradeshiya Sabha Act are as follows.

Audit Observation	Comments of the Sabha	Recommendation
<p>By-laws Although By-laws could have been enacted to fulfil 30 main tasks , under Section 126 of the Local Council Act, the Sabha had not enacted By-laws on 20 tasks even by 31 December 2022 .</p>	<p>The necessary further steps are taken to enact by-laws regarding matters not covered.</p>	<p>Actions should be taken to identify opportunities for the Sabha to generate income and enact By-laws.</p>

3.2 Procurement Management

Audit Observation	Comments of the Sabha	Recommendation
<p>Allocation had been made for the purchase of a generator in Budget 2020, and out of the 8 organizations that submitted bids for purchase in 2022, three (03) organizations have been removed stating that they have not responded considerably and the purchase had been made from a private company at a price Rs. 484,500 more than the lowest price among the removed prices. Although the relevant activities were done purchase of a diesel generator during the procurement process, after the purchase, the machine had to be operated using super diesel. Further, apart from the procurement, the generator had been installed by the company that purchased it from payment voucher number 597 on 21 March 2022 at a cost of Rs.1,091,610 .</p>	<p>Even though decisions have been made to bring this machine, it has not been included about power supplies about those prices.</p>	<p>The procurement should be done according to the prescribed method.</p>

3.3 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The value of 05 accounts receivable balances as at 31 December of the year under review was Rs.228,772,941 and, the total balance related to the period from 01 to 05 was Rs. 225,091,708 according to the age analysis and the total of accounts which had exceeded a period of 5 years was Rs.169,374 .	Since a balance of advances for which there is no proof of settlement is included from 1988 to 2011, it will be checked furthermore and relevant corrections will be made in the future.	Arrangements should be made to recover the balances receivable promptly.
(b) The total value of 06 accounts payable balance items as at 31 December of the year under review was Rs.346,812,351 and according to the age analysis, the total account balance related to the period from 01 to 05 was Rs. 291,821,628 and the account balance totalled to Rs. 50,000 had exceeded a period of 05 years.	Arrangements will be made to scrutinize on the matters and to pay.	Arrangements should be made to settle the balances payable promptly.
(c) An age analysis was not submitted to the audit for the refundable deposit balance of Rs.54,940,722 as at 31 December of the year under review.	Arrangements should be made to submit the age analysis in future audits.	Age analysis should be submitted to audit.

(d) Although the shop rent should be assessed every 3 years as per the Circular No. 2019/02 of the North West Local Government Commissioner dated 20 January 2019, it had not been so done in relation to 19 shops owned by the Sabha on lease basis.	Even though the Valuation Department has been notified to obtain monthly rent assessments for market complexes and shops owned by this Sabha, the assessment activities have delayed due to the situation in the country in the past.	Arrangements should be made to make a new assessment and to be charged.
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3.4 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
There was a loan balance of Rs. 224,744 receivable from 16 employees who are not engaged in the duties of the Sabha by the end of the year under review.	Actions are being taken to recover from the officers by now.	Actions should be taken to recover the arrears of loan balances.

3.5 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Registers of fixed assets had not been maintained for lands, buildings furniture and fixtures, machines and machinery .	The subject officers have been made aware of the instructions related to maintaining a register related to assets.	Fixed asset registers should be maintained in an updated manner.
(b) The jeep and the van owned by the Sabha had not been taken over and transfer orders had not been obtained for 75 burial grounds out of 121 burial grounds.	Further work relating to taking over to the Sabha is being done.	Actions should be taken to take over.

3.6 Idle and Underutilized Assets

Audit Observation	Comments of the Sabha	Recommendation
The Nissan fire engine valued at Rs.5,000,000 which had been donated by Nugegoda Lions Club to the Sabha in 2005 and excavator valued at Rs.1,500,000 had remained in idle in premises of sub-office even by 20 April 2023 .	Further actions is to be done to auction the Nissan type fire engine and excavator which are not in a suitable condition for driving.	Prompt actions should be taken as per Financial Regulations in respect of idle assets.

4. Accountability and Good Governance

Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
As a result of a variation of 35.3 to 66.8 per cent between the estimated revenue of 03 heads of revenue in the year under review and a variation of more than 40 per cent of the net allocation made in 84 expenditure objects without being spent was observed, it was observed that the Budget was not made use as an effective management control tool.	Some development programmes could not be implemented according to the instructions and circulars issued by the government and local government.	The Budget should be prepared at the beginning of the year, by forecasting of income and expenditure .