

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of Polpithigama Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations 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 Subsection 172 (1) of the Pradeshiya Sabhas 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 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 accompanying financial statements give a true and fair view of the financial position of Polpithigama 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 Principles.

**1.2 Basis for Qualified Opinion**

My opinion is qualified 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

#### **1.4 Audit Scope (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 to identify and assess the risk 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 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 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

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

- 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.
- The financial statements presented include all 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 regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a)	Creditors of 05 industries worth Rs. 2,027,219, which had been entered in to an agreement, in the accounting of industrial creditors in the year under review, had been credited to Creditors and capital assets repair account had been debited.	That Action will be taken to rectify through a journal entry in the preparation of the final accounts for the year ended 31 December 2023.	Accounting should be done accurately.
(b)	Even though industrial creditors had been Rs.34,428,751 for 24 projects completed in the year 2021 under the State Ministry of Rural Roads and Other Infrastructure, it had been accounted as Rs.35,077,148 according to the financial statements.	That Action will be taken to rectify it in the next year.	-Do-
(c)	Three (03) projects worth Rs.2,182,174, of which work had been finalized in the year under review and the land worth Rs.600,000 had not been accounted.	That had been recorded in the fixed asset registers.	-Do-
(d)	The stock worth Rs.24,343 received as donations as at 31 December 2022 had been left out of the accounts.	Action will be taken to rectify it.	-Do-
(e)	An amount of Rs.100,000 paid for repairing the house destroyed by fire had been re-accounted as public supplies creditors.	balance has been mistakenly accounted in the creditor account.	-Do-

## 1.6.2 Documentary Evidence not made available for audit

<b>Evidence not made available</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Two (02) account balances worth Rs.106,143,802 as at 31 December of the year under review could not be verified satisfactorily in the audit due to the non-availability of updated control accounts and non-submission of balance confirmation documents.	That Action will be taken to rectify in the future.	Adequate evidence must be submitted.

## 1.7 Non-compliance

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions.

Instances of non-compliance with Laws, Rules, Regulations and Management decisions are mentioned below.

	<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	Pradeshiya Sabha Rules 1988 (Finance and Administration) Rule 61	An annual survey in respect of industrial tax and business tax had not been conducted.	Action will be taken to conduct a systematic business survey in the future and to document.	Action should be taken in terms of the Rules.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka FR 371	A delay of 37 days to 91 days had occurred for the settlement of advances.	That the advance will be settled as soon as the works, for which the advance is obtained, are completed.	Action should be taken to settle the advances immediately after the completion of the work.

## 1.8 Unauthorized Transactions

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
During the year under review, 87 journal entries worth Rs.677.97 million had been adjusted to the financial statements without formal approval.	That action will be taken to rectify in the preparation of the final account of the year 2023.	Financial statements should be prepared through journal entries with formal approval.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue, which exceeded the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2022, had been Rs. 11,143,743 as against the revenue, which had exceeded the recurrent expenditure in the previous year had been Rs. 4,180,502.

### 2.2 Revenue Administration

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

Information about estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year is mentioned below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	2,983	3,428	3,741	4	2,995	3,112	3,107	5
Rents	12,508	6,291	6,183	108	11,618	5,205	4,953	252
License Charges	1,258	1,007	1,026	-	1,058	1,042	1,042	-
Other Revenue	37,088	37,088	19,282	-	12,435	16,494	16,494	-
<b>Total</b>	<b>53,837</b>	<b>47,814</b>	<b>30,232</b>	<b>112</b>	<b>28,106</b>	<b>25,853</b>	<b>25,596</b>	<b>257</b>

#### 2.2.2 Performance of the Collection of Revenue

Audit Observation	Comment of the Sabha	Recommendation
<p><b>Rates and Taxes</b></p> <p>A large number of business establishments equipped with all the basic facilities had been operated in the area of the Pradeshiya Sabha for many years and although the Sabha had implemented services such as garbage collection in many places in the limits of the Pradeshiya Sabha, the Council had not taken steps to collect assessment tax from those places.</p>	<p>Action will be taken to charge assessment tax after assessing the assessment zones by the Valuation Department.</p>	<p>The Sabha should provide the necessary facilities and collect the assessment tax.</p>

## License Charges

Even though all the industries included in the list obtained after conducting an annual survey should be included in the tax register of industries, the business tax register and the trade license fee register, only the business, from which charges had been levied, had been included in the register without conducting a survey in that manner. Accordingly, the Sabha had not taken steps to identify the business, from which charges should be levied and to collect license fees from them.

That a business survey will be systematically conducted and documented for the next year.

All business identified in the survey should be included in the register and business tax and license fees should be collected.

## Other Revenue

Twenty (22) transmission towers had been established by 06 communication institutions within the area of the Pradeshiya Sabha, and action had not been taken to recover the tax amount of Rs.27,000 for 9 towers, out of that, to be recovered for the year 2022.

The institutions which had owned the telephone transmission towers were informed in writing and action will be taken to collect tax amounts duly in this year.

Action should be taken to increase revenue.

## 2.3 Surcharges

Audit Observation	Comment of the Sabha	Recommendation
An amount of Rs.1,283,910 had to be recovered as at 31 December 2022 for the surcharges imposed in the previous years by me against the persons, who had been responsible in terms of the provisions of the Pradeshiya Sabhas Act.	Seventeen (17) surcharge holders have appealed to the Ministry of Local Government, and it has been requested to provide a report to release them or reject the appeal and it has been executed.	Amounts should be charged for Surcharge certificates related to the previous years.

## 3. Operational Review

### 3.1 Projects that had been abandoned

Audit Observation	Comment of the Sabha	Recommendation
(a) Sixty (60) water tanks with the capacity of 5,000 litres and 60 water tanks with the capacity of 2,000 litres had been installed in the limits of the Pradeshiya Sabha by incurring a sum of Rs. 29,962,280 under the LGESP	Even though these water tanks were given to the Pradeshiya Sabha owing to the issue in drinking water prevailed in the years of 2017 and 2018 and the spread of kidney diseases, 02 water towers were	Action should be taken to carry out a feasibility study before implementing a project, and the projects should be implemented thereafter, and attention should be paid to an

(Pura Neguma) Project due to the acute drinking water problem in the area in 2017/2018 and the increase in the incidence of kidney and related diseases and the water tanks had been handed over to the Pradeshiya Sabha on 30 June 2017. However, the project had not achieved the desired results as drinking water facilities had been provided to the people of the area through the Deduru Oya drinking water project and other water projects and as a result, the project had been abandoned.

requested under the LGESP (Pura Neguma) Project to carry water to these tanks, water bowsers were not received at that time. Therefore, the project was unsuccessful. After that, when the water bowsers were received in 2021, the Deduru Oya water project had been implemented.

alternative programme for the effective utilization of the installed water tanks.

- (b) An allocation of Rs. 4,908,057 had been received in the year 2021, for the construction of the dip well and the construction of the water tank in the Polpithigama Mahaaya Water Project under the provincial specific development grants, and due to not providing allocation for the construction of the water pumping station, the project had been abandoned without being able to get results from the water project.
- It has been stated that the provincial water unit will provide allocation in the year 2023 for the construction of the water pumping station of this project, and it is expected to achieve the desired results this year.
- A total cost estimate should be prepared, and provision should be made accordingly to implement the projects.

### 3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Assets including 02 lands owned by the Pradeshiya Sabha, of which the value had not been assessed, 04 water projects, 02 concrete mixers received as donations and a generator had not been accounted as fixed assets.	That the fixed assets have been assessed and recorded in the Fixed Asset Register.	Should be accounted as fixed assets.

### 3.3 Asset Management

Audit Observation	Comment of the Sabha	Recommendation
There had been 32 vehicles owned by Polpithigama Pradeshiya Sabha, 05 vehicles, out of those vehicles, had been unusable and in a dilapidated condition, and revenue licenses had not been obtained for the year 2023 for 12 vehicles, out of the remaining 27 vehicles, even by the date of audit.	That Action will be taken to rectify in the future.	Action should be taken to deploy vehicles by obtaining revenue permits and attention should be paid on the safety of the vehicle.