

## **Chavakachcheri Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Chavakachcheri 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 performance, statement of changes in equity, cash flow statement for the year then ended 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 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 Chavakachcheri 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.

#### **1.2 Basis for Qualified Opinion**

I expressed qualified opinion 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 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.

#### **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 include 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 includes 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 on the preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
The cost of 12 buildings of Rs. 11,734,864 and the value of 06 vehicles had not been accounted for as fixed assets.	It will be done in the year 2023.	This should be corrected.

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Sabha	Recommendation
According to the ledger, there was a difference of Rs.504,571 between the balance of store goods as at 31 December 2022 and the balance as at that date according to the financial statements.	Action is being taken to rectify.	This should be corrected.

## 1.7 Non-compliances

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

Non-compliance with Laws, Rules and Regulations	Non-compliances	Comment of the Sabha	Recommendation
Section 32 (III) of Chapter III Pradeshiya Sabha Financial and Administrative Rules of 1988	In 03 sub-offices of the Sabha, the records related to rates and taxes recovery had not been maintained and recovery of rates and taxes had not been done in the year under review.	Preliminary actions are being taken in this regard.	Effective measures should be taken for recovery of rates and taxes.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 93,742,027 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 61,853,542 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 Sabha, information 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 December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	163,465	165,899	14,637	2,952,419	163,900	123,375	23,681	2,880,582
Rent	15,313,200	17,036,028	16,990,278	45,750	17,387,600	13,187,043	13,050,569	143,974
License Fees	2,555,250	1,635,918	1,635,918	-	2,663,070	2,365,403	2,365,403	-
Other revenue	43,565,435	93,208,188	92,951,066	-	41,872,200	70,897,332	70,669,649	-
	<u>61,597,350</u>	<u>112,046,033</u>	<u>111,591,899</u>	<u>2,998,169</u>	<u>62,086,770</u>	<u>86,573,153</u>	<u>86,109,302</u>	<u>3,024,556</u>

#### 2.2.2 Performance in Revenue Collection

##### Audit Observation

Actions had not been taken so far to recover the arrears of rates and taxes for the period between the years 02 and 05 totalling Rs.2,952,418.

##### Comment of the Sabha

Actions are being taken in this regard.

##### Recommendation

Arrears should be collected promptly.

## 3. Operating Review

### 3.1 Operating Inefficiencies

##### Audit Observation

(a) 133 development work schemes worth Rs.165,056,382 implemented in the period between the 01 and 07 years by the Sabha's development reserve funds had been abandoned in the middle.

##### Comment of the Sabha

Estimates related to the work schemes are being prepared and bidding is currently being done.

##### Recommendation

Actions should be taken to carry out the relevant development works within the prescribed time frame.

(b) Due to the non-rental of 08 stalls owned by the Sabha, there was a loss

Actions are being taken to reduce the bid value

Assets should not be left unused.

of income of Rs.2,317,000 during the year under review. of the stalls.

### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
187 wells, 45 cemeteries and 21 lands and buildings had not been handed over to the Sabha so far. Also, during the year under review Rs. 04 buildings amounting to 6,692,008 had been constructed on lands not owned by the Sabha contrary to paragraph 1.1 of Finance Commission Circular No. 2016/01 dated 30 December 2015.	Actions are being taken to take over.	Ownership of assets should be confirmed.

### 4. Accountability and Good Governance Environmental Issues

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Instead of recycling solid waste, it was incinerated causing environmental damage. Also, by-laws for solid waste management had not been adopted.	Efforts will be made to maintain waste management in a formal manner in the future.	Appropriate waste management practices should be developed.