

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Koralai Pattu North 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, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 accompanying financial statements give a true and fair view of the financial position of the Koralai Pattu North 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**

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 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the 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 Council</b>	<b>Recommendation</b>
(a)	Cash basis was followed in calculating income of stamp duty contrary to the generally accepted accounting principles followed for preparation of financial statements.	Accounting policies will be disclosed in the accounts in the future year.	Accounting policies should be disclosed in the financial statements.
(b)	Solar-power street lights had been installed at a cost of Rs 3,000,000 under the “Gama Samaga” project and handed over to the council in 2021. Even though, it was not shown in the financial statements for the review under year.	Action had been taken to include its value in financial statements.	Assets should be disclosed in the financial statements.
(c)	In the year under review, 4,194 books amounted to Rs.500,200 which were donated had not been disclosed as assets in the financial statements.	Unvalued books will be valued and included in the next financial year's accounts.	Library books should be shown as assets in the financial statements.

## 1.6.2 Documentary evidenced not made available for Audit

Audit Observation	Comment of the Council	Recommendation
Lands deeds, fixed assets register, assets documents and title confirmation documents had not been submitted for audit, regarding 06 assets balances amounted to Rs.222,090,189 shown in the financial statement as at 31 December of the year under review.	Action will be taken to obtain documents of the assets.	Action should be taken to obtain the documents of assets and record them in register.

## 1.7 Non- Compliances

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

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions etc. are shown below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Sub-section 19(1)(XXIV)(b) of the Pradesha Sabhas Act No. 15 of 1987	Prior approval of the Minister had not been obtained for mining the sand and selling the sand.	According to the decision of the Council, the price had been decided for mining and sale of the sand.	Prior approval of the Minister should be obtained for mining and sale of the sand.
(b) Section 24 (1) of the Pradesha Sabhas Act No. 15 of 1987 and the Assistant Commissioner of Local Government, Batticaloa, letter No. BT/ACLG/PL/Road/2013 dated 10th July 2013	A total of 157 streets had been identified by the Council. Even though, they had not been published In the gazette.	Action will be taken to gazette in future year.	Actions should be made to publish the roads in the Gazette.

- (c) Section 371(2) (b) Advance payments amounted to Rs.819,129 made by the Council for the period of 2018, 2021 and 2022, which had not been settled up to the end of the year under review. Actions will be taken to adjust the advance amount. Action should be taken to recover the advance payments.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over income of the Sabha for the year ended 31 December 2022 amounted to Rs. 3,133,210 against the excess of revenue over recurrent expenditure amounted to Rs. 5,850,993 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 chairman, the details 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	1,700,000	753,593	715,117	951,006	2,209,000	1,357,331	1,125,296	912,530
ii. Rent Income	5,300,000	2,008,130	1,645,780	1,029,250	5,641,050	1,876,455	1,702,885	666,900
iii. License Fees	755,000	948,550	973,550	82,000	721,300	596,720	601,720	107,000
iv. Other revenue	<u>15,406,000</u>	<u>29,523,363</u>	<u>30,018,070</u>	<u>448,950</u>	<u>19,876,000</u>	<u>24,152,367</u>	<u>24,073,685</u>	<u>943,657</u>
Total	<u>23,161,000</u>	<u>33,233,636</u>	<u>33,352,517</u>	<u>2,511,206</u>	<u>28,447,350</u>	<u>27,982,873</u>	<u>27,503,586</u>	<u>2,630,087</u>

## 2.2.2 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>(a) Rates and Taxes</b>		
Action had not been taken to collect the water bill arrears of Rs.411,006 from Community Drinking Water Scheme of Madurangeni and Alangulam.	Council is taking steps to collect the arrears.	Action should be taken to collect the arrears of water bill.
<b>(b) Rent</b>		
Out of 08 shops in Alankulam owned by the council, 02 shops had not been given for the rent up to the end of the year under review. Hence, action had not been taken to collect the outstanding amount of Rs.390,000 from 03 shops.	-Do-	Action should be taken to collect the arrears of rental income.
<b>(c) Stamp duty</b>		
Stamp duty amounted to Rs.881,800 from the Chief Secretary of the Provincial Council and other authorities was due over 05 years.	Actions are being taken to collect the stamp duty arrears.	Action should be taken to collect the arrears of stamp duty.
<b>(d) Other Revenue</b>		
Action had not been taken to collect the arrears of sand sales amounted to Rs. 240,000 from community centres of Panichankeni and Vakarai-Central	Answer had not given	Action should be taken to recover the dues of sand sale revenue.

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
15 number of assets had been donated to the Council, even though these had not been disclosed in the financial statements.	Donated assets will be shown in the financial statements after valuation of assets.	Donated assets should be shown in the financial statements.

#### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Board of survey had not been carried out by the Council, for the 15,902 books in 07 libraries over last two years.	Actions are being taken to board of survey for the libraries.	Board of survey should be carried out annually.
(b) Council had not been taken any action to repair the 12 vehicles and to remove the 03 unusable vehicles.	Vehicles will be repaired after receive of the sufficient funds.	Actions should be taken to repair and dispose vehicles.

#### 3.3 Human Resource Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
a) <b>Staff vacancies and excesses</b>  As per the approved cadre of the Department of Management Services, there were 09 vacancies related to 07 posts in the Council.	Council is considering the vacancies and excess staffs.	Actions should be taken to adjust the excess cadre and to fill up the vacancies.
(b) <b>Staff loan</b>  Staff loan amounted to Rs.217,322 due, had not been recovered over 04 years from 02 retired and a vacated staffs.	Actions had been taken to recover the loan arrears.	Loan arrears should be recovered from the related employee.

#### **4. Accountability and Good Governance**

##### **4.1 Submission of Financial Statements**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
According to the sub-section 16(2) of the National Audit Act No. 19 of 2018, The Annual Performance Report had not been submitted with the financial statements.	Annual performance report will be issued in future year.	Annual performance report should be submitted.

##### **4.2 Annual Action Plan**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
According to the Public Finance Circular No.01/2014 dated 14 February 2014, an Annual Action Plan for the year under review had not been prepared and approved by the Council.	This will be rectified in future year.	Annual Action Plan should be prepared.