

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Eravur Pattu 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 Eravur Pattu 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

Audit Observation	Comment of the Council	Recommendation
(a) As per the register, receivable tipping fee amount of Rs. 8,147,610 from Pradesha Sabha, Urban Councils and Municipality, those are dumping solid waste at the Koduvamadu Solid Waste Management Center. Even though, it had been shown as Rs.7,417,710 in the financial statements.	It will be corrected in future year.	Income for the year should be shown in the financial statements.
(b) The solid waste tipping fee receivable of Rs. 2,258,283 in the year under review, for the disposal of solid waste at the Solid Waste Center, had not been shown in the financial statements.	Action had been taken to correct it.	Receivable income should be shown in the financial statements. -

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| (c) The tipping fee charged for dumping solid waste at the Solid Waste Station is based on the reimbursement of the total expenditure incurred in respect of collection of solid waste. However, during the year under review, a loss of Rs. 1,666,720 had been shown in income statement, from the collection of solid waste. | Arrears of tipping fee had been shown, as per the cash basis. In future, it will be shown in the financial statements, as per the accrual basis. | Accounts should be prepared in accordance with accounting policies.                   |
| (d) The value of 2,007 books worth Rs.556,106 received as donations in the year under review, had not been accounted.  | That this will be dealt with in the future.  | Donated books should be shown as assets in the financial statements.                  |
| (e) Interest income from fixed deposit had been over stated by Rs.262,030 during the year under review.  | Actions will be taken to correct it, in future.  | Receivable income for the year should be shown as assets in the financial statements. |
| (f) The penalty arrears of Rs.121,037 for buildings constructed without building approval, had not been shown in the financial statements.   | This amount will be shown in the financial statements in future year.  | Penalty arrears should be shown as assets in the financial statements.                |
| (g) Arrears amount of Rs.102,000 from telephone transmission towers had not been shown as assets in the financial statements.  | - Do -   | Income balances must be shown as assets in the financial statements.                  |
| (h) The closing stock value of 172 Kg compost worth Rs. 51,200 at the end of the year under review, had not been shown as assets in the financial statements.  | - Do -   | Reserves must be shown as assets in the accounts.                                     |
| (i) Payable water charges amount of Rs.30,562 at the end of the year under review, had not been shown as liabilities in the financial statements.  | Unable to identify the water bill separately, included December 2022 and January 2023.   | Stock 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 03 assets balances amounting to Rs.146,185,023 shown in the financial statement as at 31 December of the year under review.	Action will be taken for valuation of the fixed assets and documentation.	Action should be taken to obtain written evidence 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) Section 24 (1) of the Pradeshiya 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	The Council's roads had not been published in the Gazette till the date of audit.	Actions have been taken to publish the roads in the Gazette.	Actions should be made to publish the roads in the Gazette.

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| (b)  | Section 59 of Chapter III of the Pradeshiya Sabha (Financial and Administration) Rules, 1988 | As per the section 150(1) of the Pradeshiya Sabha Act, action had not been taken to prepare a list of trades in the Sabha area by Revenue Inspector on or before 31st March of the year under review. Because of this, unable to identify the trades. | Instructions had been given to the Revenue Inspector to prepare a list of trades, on or before 31st March of the each year. | Action should be made as per the Rules.                 |
| <br> |  |   |   |   |
| (c)  | Financial Regulations of the Democratic Socialist Republic of Sri Lanka                      |   |   |   |
| (i)  | 371(2)(b)  | Advance amount of Rs. 6,682,760 had not been recovered till the end of the year under review.   | Action will be taken for settlement of advance payments   | Action should be taken to recover the advance payments. |
| (ii) | 571(1)&(2)   | Lapsed deposits of Rs. 16,907,166 had not been disposed.  | Action will be taken to inform to the related person or to transfer to the income.  | Action should be taken to transfer to the income.       |

## 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. 97,152,572 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 83,880,400 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	2,004,500	--	--	992,082	2,152,000	--	--	992,082
ii. Rent Income	15,370,000	11,457,854	14,607,772	5,484,204	16,445,000	8,601,686	4,848,540	8,634,122
iii. License Fees	3,726,000	3,089,967	3,089,967	--	3,526,000	2,950,718	2,950,718	--
iv. Other revenue	50,712,000	57,159,616	58,159,616	2,609,529	51,047,000	17,510,494	13,900,966	3,609,529
<b>Total</b>	<b><u>71,812,500</u></b>	<b><u>71,707,437</u></b>	<b><u>75,857,355</u></b>	<b><u>9,085,815</u></b>	<b><u>73,170,000</u></b>	<b><u>29,062,898</u></b>	<b><u>21,700,224</u></b>	<b><u>13,235,733</u></b>

## 2.2.2 Revenue Collection Performance

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

Audit Observation	Comment of the Council	Recommendation
<p>(a) <b>Rent</b></p> <p>Action had not been taken to recover the arrears of lease income amounted to Rs. 259,000 from 06 shops during the year under review.</p>	<p>Action had been taken to inform to the lessee.</p>	<p>Action should be taken to lease arrears.</p>
<p>(b) <b>License Fees</b></p> <p>During the year under review, trade license fee receivables from business entities amounted to Rs. 108,000 had not been collected by the council.</p>	<p>Action had been taken to inform to the Companies to collect the arrears.</p>	<p>Trade license fees for the business premises should be collected.</p>
<p>(c) <b>Stamp duty</b></p> <p>Stamp duty amounted to Rs.37,233,863 from the Chief Secretary of the Provincial Council and other authorities was due on 31 December 2022, over 05 years.</p>	<p>It will be corrected in the future year.</p>	<p>Action should be taken to collect the stamp duty income.</p>

### 3. Operational Review

#### 3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Cash balance of Rs.50-77 million had been founded in the bank account of Council at end of the every month of the year under review. Even though, it had not been invested in fixed deposit to earn the interest income.	Answer had not given	Action should be taken to earn income from investments.
(b) According to Public Circular No. 1769 issued by the Deputy Director General of the Director General of Health Services dated 30 September 1992, even though a Public Health Inspector can create plans of a building only for single-storied houses, 48 plans for two-storied buildings drawn by the Public Health Inspector during the year under review had been approved by the council.	It won't happen in future.	It should be proceeded as per the circular.
(c) Total amount of Rs. 5,881,787 cash balance is being in the savings account of 16 Community Centers. Even though, Council had not given any guidance to earn income from fixed deposits.	Action will be taken to guide them to make fixed deposits.	Action should be taken to encourage the community centers financial activities.
(d) Ten number of assets had been donated to Council by the Assistant Commissioner of Local Authorities, Batticaloa, during the year of 2020 and 2021, had not been valued and shown as assets in the financial statements.	It will be shown in the future years.	Donated assets should be shown in the financial statements.

### 3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) It was observed, properties owned by the Council such as beach park at Chavukkady, 04 shops at old market, 10 shops at new market, bus stand, market shops at Chittandy and 04 shops at kittul, had not been used for income purpose.	There were no answers.	Action should be taken to generate income..
(b) The ownership of the 19 vehicles, trailers and bowsers that had been donated to the council from other government institutions, had not been transferred to the council.	- Do -	Actions should be made to take over the vehicle as an asset of the council.
(c) Council had not been taken any action to repair the 13 vehicles over 03 years.	- Do -	Actions should be taken to repair the vehicles.
(d) Action had not been taken to obtain the registration book for the 12 vehicles used by the Council.	- Do -	Actions should be taken to obtain registration books.

### 3.3 Lapses in contract management

Audit Observation	Comment of the Council	Recommendation
A sum of Rs.105,572 had been paid as paper advertisement charges for the fixing of 18kw Solar Power System for the office building, with an allocation of Rs.03 million under Phase-1 of the Local Government Supporting Project (LDSP-PT 1st 50%), but the project had not been completed till the end of the year under review.	Project had not been completed due to the no one interested in procurement.	Action should be taken to complete the project within the particular time period.

### 3.4 Human Resource Management

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	<b>Staff Vacancies and Excesses</b>  There were 19 vacancies and 01 excess in 12 posts of approved staff in the Department of Management Services.	Appropriate action will be taken in this regard.	Action should be taken to fill the vacancies and adjust the additional staff..
(b)	<b>Staff Loan</b> For more than 05 years, loan amount of Rs. 117,131 were to be collected from three retired, vacated and transferred officers.	That actions have been taken to recover outstanding loan balances from retired, vacated and transferred officers.	Actions should be taken to recover outstanding employee loans.

## 4. Accountability and Good Governance

### 4.1 Environmental Observations

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
	As per Section 08 of Gazette Notification No.1534/18 dated 01 February 2008, should be applied for renewal of the Environmental Protection License (EPL) within a period of 03 months from the date of expiry. However, 79 industries had not been taken action to renew the license.	Actions will be taken to avoid this in the future.	Action should be taken to renew the license and notify about the expiry.