

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Porathivu 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 Porathivu 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) The stamp duty income of Rs. 11,233,307 received in the year 2022 in relation to the period from January to December 2021 had been again accounted as arrears of the year under review.	Action will be taken to correct in the year 2023.	Action should be taken to correct it.
(b) Closing stock at the end of the year under review shown as Rs.1,733,098 had not been shown as assets in the financial statements.	That will be corrected in the future.	It should be accounted in financial statement.
(c) An amount of Rs.521,438 due to the council for providing water under the Rural Water Supply Scheme was not shown as an asset in the financial statements.	- do -	- do -
(d) In the year under review, books and stationery worth Rs.220,411 which were donated had not been disclosed as assets in the financial statements.	- do -	- do -

## 1.6.2 Documentary evidenced not made available for Audit

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Lands deeds, fixed assets register, assets documents and title confirmation documents had not been submitted for audit, regarding 05 assets balances amounting to Rs.48,538,599 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.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Section 5(XII) of Chapter I of the Pradeshiya Sabha (Financial and Administration) Rules, 1988	Adequate security had not been obtained from officers who are responsible for dealing with cash, stores, revenue collection and signing of cheques.	Action has been made to obtain security deposits.	Security deposits should be obtained from officers.

## 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. 5,840,744 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 35,954,444 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	1,200,000	-	-	-	1,000,000	-	-	-
ii. Rent Income	1,930,000	888,000	764,850	436,152	1,430,000	1,027,410	1,088,150	313,002
iii. License Fees	1,905,000	1,080,625	1,080,625	-	1,925,000	884,515	884,515	-
iv. Other revenue	19,865,000	45,333,421	42,381,478	2,969,542	74,570,000	52,473,938	52,473,928	17,899
Total	<u>24,900,000</u>	<u>47,302,046</u>	<u>44,226,953</u>	<u>3,405,994</u>	<u>78,925,000</u>	<u>54,385,863</u>	<u>54,446,593</u>	<u>330,901</u>

### 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>Rates and Taxes</b></p> <p>-----</p> <p>According to Gazette Notification No. 1826 dated 31st August 2013, 12 Grama Niladari Divisions had been declared as developed areas. Eventhough, no action had been taken for valuation of the assets for the collection of assessment taxes.</p>	<p>As initial step, information is currently being collected for the collection of assessment tax.</p>	<p>Action should be taken to collect the assessment tax.</p>

(b) **Rent**

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Action had not been taken to recover the arrears of rental income amounted to Rs.281,591 for the period from 2017 to year under review.

Action will be taken to recover the arrears and legal action will be taken against non-payers of arrears.

Action should be taken to recover the arrears of rental income.

(c) **License Fees**

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Council has lost trade license income of Rs 123,900 in the year under review, to be collected from 66 business outlets.

Action will be taken to collect the trade license fee without fail in future.

Action should be taken to collect the trade license fee without fail.

(d) **Stamp duty**

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Stamp duty amounted to Rs.2,602,426 from the Chief Secretary of the Provincial Council and other authorities was due on 31 December 2022.

Answer had not given

Action should be taken to collect the stamp duty income.

**3. Operational Review**

**3.1 Management Inefficiencies**

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	Telephone charges of 03 lines belonging to the council not being used, amounting to Rs.87,060 had been paid during the year under review.	Action will be taken to disconnect the unused telephone lines belonging to the council.	Action should be taken to avoid extra costs for useless service.
(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, 05 plans for two-storied buildings drawn by the Public Health Inspector during the year under review had been approved by the council.	That two-storied buildings are allowed to be approved by the council only if the civil engineer is recommended by whoever is drawn.	It should be proceeded as per the circular.

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| (c) | Council had not been taken any action for 04 nos. of unauthorized buildings.   | Legal action will be taken against unauthorized buildings.  | Legal action should be taken against unauthorized buildings.                                     |
| (d) | A milk collection vehicle had received from Department of Animal Production and Health Care, Eastern Province and it had been replaced with a water tanker on 16 July 2021. Eventhough, action had not been taken to remove the value of the water tank and to add the value of the milk collection vehicle in the financial statements. | The value of the replaced vehicles had been determined to be adjusted in the accounts in future year. | Action should be taken to adjustments the value of the replaced vehicles in financial statement. |

### 3.2 Assets Management

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	Necessary action had not been taken to repair the 06 vehicles and properly dispose the 04 vehicles, owned by the council.	The vehicles will be repaired after receive of sufficient funds. Further, unused vehicles will be disposed after report of the Mechanical Engineer.	Action should be taken to repair and dispose the vehicles.
(b)	Action had not been taken over 02 years to use the Multi shopper and rotatable strainer amounting to Rs.1,082,500 these were purchased for usage of the Solid Waste Management.	Machineries will be used after the construction of the elephant fences.	Action should be taken to use the assets.

### 3.3 Delays in Project Activities or Capital work

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
	As per the section 4.2.1(a) of the Procurement Guidelines 2006 of the Democratic Socialist Republic of Sri Lanka, the procurement plan had not been prepared by the Council.	Action will be taken to prepare the procurement plan.	Action should be taken to prepare the procurement plan for goods and services.

### 3.4 Human Resource Management

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	As per the approved cadre of the Department of Management Services, there were 28 vacancies related to 12 posts and 04 additional employees in the council.	Action had not been taken, even if it had been informed to the top level officials.	Necessary actions should be taken to excess cadre and fill up the vacancies.
(b)	Distress loan and other loan amounting to Rs. 503,195 due from the 06 staffs had not been recovered over 12 years.	There no any evidence for debtors. The Council will take action after taking the advice of the Commissioner of the Local Government.	Necessary actions should be taken to recover the staff loan.

## 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, 44 industries had not been taken action to renew the license.	A notification had been issued to renew the license and informed to them about the penalty will be imposed in case of default.	Actions should be taken to renew the expired EPL.