

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Padavisripura Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of Statement of 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 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 Padavisripura 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 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 includes specific provisions for following requirements.

- (a) 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.

(b) 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  | Comments of the Sabah   | Recommendation                                      |
|--|---|---|
| (a) In correcting the errors detected in the previous year's audit, the income of the year was overstated by Rs.5,414,241 due to crediting them to the income of the year.           | This will be rectified by the Accumulated Fund during the preparation of the final accounts of the coming year. | Financial statements should be prepared accurately. |
| (b) Rs.1,034,607 payable for Volleyball stadium and concreted Kotta Gus junction road constructed in the year 2021 had been debited to the expenditure of the year.                  | Having been recorded in the expenditure head of the current year, will be adjusted by the Accumulated Fund.     | - Do -  |
| (c) The stock worth Rs.436,000 received as donations in the previous year was not accounted for and Rs.76,219 used during the year was not recognized as an expense.                 | The accounts will be correctly accounted for as shown by the audit.   | - Do -  |
| (d) Fixed deposit interest receivable in the year under review was overstated by Rs.54,380.  | It will be corrected during the preparation of the final account for 2023                                       | - Do -  |
| (e) During the year under review, the cost of renovating the upper floors of the holiday resort at an expense of Rs.8,817,621 was not capitalized.                                   | It will be capitalized in the preparation of the final accounts of the year 2023.                               | - Do -  |
| (f) During the year under review, the Ayurvedic stock of Rs.450,000 received as donation from the Ministry of Health and the value of Rs.401,026 used thereof was not accounted for. | It will be corrected during the preparation of the final account for 2023                                       | - Do -  |
| (g) As on December 31, 2022, the remaining stock of Rs.3,510,820 had been credited to the income and expense account.  | - Do -  | - Do -  |
| (h) In the year under review, the value of water bowser worth Rs.14,000,000 received as donation was not accounted as capital assistance.  | It will be capitalized in the preparation of the final accounts of the year 2023.                               | - Do -  |
| (i) The loan amount of Rs.71,458 given to two officers of the Sabha was not accounted for.   | - Do -  | - Do -  |

- (j) For the years 2020 and 2021, the audit fees of Rs.62,160 were not accounted for and no provision was made for the audit fees of the year 2022. Payment will be made promptly. - Do -
- (k) Rs.337,377 receivables for new water supplies provided in the year under review were not accounted for. It will be corrected in the future. - Do -

### 1.6.2 Un-reconciled Control Accounts

| Audit Observation  | Comments of the Sabha               | Recommendation  |
|--|-------------------------------------|---|
| There was a difference of Rs.20,983,344 between the total of 04 account balances documents as on December 31 of the year under review and the balance totals as per their source utility | It will be corrected in the future. | Financial statements should be reconciled with related documents. |

### 1.6.3 Documentary Evidences not made available for Audit

| Audit Observation  | Comments of the Sabha               | Recommendation  |
|--|-------------------------------------|---|
| As on December 31 of the year under review, 18 account balances worth Rs.191,314,686 could not be satisfactorily verified during the audit due to non-submission of deeds, schedules, stock records, individual balance lists and balance confirmations. | It will be corrected in the future. | Accurate information related to account subjects should be submitted. |

## 1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows.

| Reference to Laws, Rules Regulations etc... | Non-compliance  | Comments of the Sabha              | Recommendation   |
|---|---|------------------------------------|--|
| (a) Pradeshiya Sabha Act No. 15 of 1987     |   |                                    |  |
| (i) Section 24                              | The Sabha had inventories the roads constructed, but not all the roads had been gazetted. | It will be gazetted in the future. | All existing roads should be inventoried and gazetted. |

|      |  |   |  |  |
|------|--|---|--|--|
| (ii) | Section 134  | The developed areas within the Sabha area of authority had not been identified from time to time, assessment and taxes had not been levied.   | It will be done in the future.   | Section 134 of the Pradesiya Sabha Act should be followed. |
| (b)  | Financial Regulations 1646 of the Democratic Socialist Republic of Sri Lanka | The running charts of 15 vehicles owned by the Sabha were not submitted for audit.  | As shown by the Audit, daily running charts will be submitted before 15th of every month.            | Financial regulations should be followed                   |
| (c)  | Pradeshiya Sabha (Finance and Administration) Rules, 1988                    |   |  |  |
| (i)  | Rule 193   | The statement showing reasons for excess and deficit comparing the actual expenditure of the expenditure subjects with the budget and supplementary standard expenditure was not submitted along with the accounts. | It will be presented with the final account of the next year.  | It should be done according to the pradeshiya sabha rules. |
| (ii) | Rule 218   | The land and buildings costing Rs.111,795,624 were not surveyed.  | It has been difficult to find the value of fixed assets before 2015 due to absence of documentation. | - Do -   |

### 1.7.2 Non -compliance with Tax Regulations

| Audit Observation  | Comments of the Sabha                        | Recommendation  |
|--|--|---|
| According to the Stamp Duty Special (Provisions) Act No. 12 of 2006, the stamp duty of Rs. 25,500 which had been collected from the salary from the year 2019 to the year 2022 had not been remitted to the Inland Revenue Department. | Arrangements will be made to send the money. | It should be complied with the Stamp Duty Special (Provisions) Act. |

## 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.713,438 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 1,289,996 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 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.000            | Rs.000         | Rs.000            | Rs.000                    | Rs.000            | Rs.000         | Rs.000            | Rs.000                    |
| Rent               | 600               | 566            | 566               | 44                        | 600               | 423            | 423               | 44                        |
| License Fees       | 675               | 549            | 647               | 161                       | 675               | 484            | 435               | 259                       |
| Water bill charges | <u>10,000</u>     | <u>8,463</u>   | <u>790</u>        | <u>563</u>                | <u>10,000</u>     | <u>9,884</u>   | <u>8,994</u>      | <u>890</u>                |
| Total              | <u>11,275</u>     | <u>9,578</u>   | <u>2,003</u>      | <u>768</u>                | <u>11,275</u>     | <u>10,791</u>  | <u>9,852</u>      | <u>1,193</u>              |

## 3. Operational Review

### 3.1 Assets Management

#### Audit Observation

During the year under review, 05 vehicles valued at Rs.18,009,050 used by the Pradeshiya Sabha were not taken over properly.

#### Comments of the Sabha

Discussions have been held with the Ministry of Local Government and the Department of Motor Traffic in this regard and the takeover activities will be carried out promptly.

#### Recommendation

Arrangements should be made to formally take over.

### 3.2 Human Resources Management

#### Audit Observation

Considering the approved number of employees and the actual number of employees in the Sabha, there were 20 vacancies in 12 posts.

#### Comments of the Sabha

That letters have been forwarded to the Governor's office, the Deputy Chief Secretary's office regarding the need to fill the officer vacancies in the Sabha shown by the Audit.

#### Recommendation

Vacancies should be filled.

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

##### **4.1 Internal Audit**

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>  | <b>Recommendation</b>                |
|---|---|--------------------------------------|
| Although the Sabha had installed internal audit units, adequate internal audit had not been carried out during the year under review. | An internal audit officer and an internal audit committee have been appointed in the Sabha but due to the lack of staff and the abundance of existing duties, the action plan was not implemented in the same way and in the future, these omissions will be avoided. | Internal audit should be formalized. |

##### **4.2 Environmental Observations**

| <b>Audit Observation</b>   | <b>Comments of the Sabha</b>  | <b>Recommendation</b>                   |
|--|---|---|
| It was observed the environmental problems like re-mixing of graded and collected garbage, and releasing them freely into the bear environment, during floods and heavy rains, irregularly disposed garbage is washed into waterways, causing environmental damage to aquatic life as well as to mankind; due to non-compliance with the amendments made to the National Environment Act No. 47 of 1980. | The garbage that is currently collected by using the limited staff of the Sabha is disposed of in a manner that does not harm the environment, and that this will be implemented in a more systematic and regular manner in the future. | Garbage should be disposed of properly. |