

Town & Gravets Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Town & Gravets 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 Town & Gravets 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 Sabha	Recommendation
(a) The value of the goods donated by the Local Government Department in the year under review amounting to Rs.507,330 was not accounted for.	It will be corrected in the next year's accounts.	Accounts should be corrected.
(b) During the year under review, Rs.1,945,865 spent on renovation of the Head Office and Uppuveli Public Library was not capitalized.	- Do -	- Do -
(c) 42 items recommended for auction by the Survey Board in the year 2021 were sold at auction for Rs.155,450 during the year under review but their value was not recognized and removed from the accounts.	As the goods auctioned during the year under review were purchased in the period prior to the year 2015, the cost cannot be found. However, arrangements have been made for deducting from the stock register.	The cost of auctioned goods should be recognized and removed from assets.
(d) During the year under review, fixed deposit interest receivable of Rs.412,705 was not accounted for.	Bank interest income is shown in the accounts based on the information provided by the bank. Also, in future, the accounts will be disclosed them on accrual basis.	Interest income should be accounted for on the accrual basis.
(e) Drugs worth Rs.1,400,000 received from the Ministry of Health during the year under review were not accounted for as annual government grants.	Financial statements are prepared with all the accounting so that such mistakes do not occur in future years.	It should be accounted correctly.
(f) As on December 31, 2022, the value of medicines, electrical equipment, stationery, vehicle tires and other consumables of the Ayurvedic hospital maintained under the Pradeshiya Sabha was understated by Rs.4,641,291.	- Do --	Relevant steps should be taken to accurately disclose the value of the closing stock.
(g) During the year under review, rebates of Rs.2,473,535, given to increase the efficiency of collecting property tax, had been deducted from the property tax collected, without presenting it separately in the accounts.	Future property tax rebates are properly disclosed in the financial statements and the financial statements are prepared with correct accounting.	Income and expenses should be shown correctly.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.91,252 since, the total of 04 account balances shown in the financial statements was Rs.44,227124 and that shown in the source documents was Rs.44,135,872,	Due to accounting errors occurred since 2003, there was a difference between the basic documents and the financial statements. The approval of the council and the approval of the local government commissioner have been received for a written off committee to correct this. The committee meetings will be held in the future and action will be taken based on the recommendations.	The source documents balances should be consistent with the balances shown in the financial statements.

1.6.3 Documentary Evidences not made available for Audit

Non-submitted Audit evidence	Comments of the Sabha	Recommendation
As on December 31 of the year under review, 04 account balances worth Rs.261,368,978 could not be satisfactorily verified during the audit, due to non-submission of title deeds, fixed assets register and lists for development works.	No answer	Relevant supporting evidence should be maintained in respect of fixed assets.

1.7 Non- Compliances

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
Provincial Finance Circular No. PT/03/2021 dated 16 August 2021.	Security deposits of Rs. 262,500 were not collected from 18 officers working in the Pradeshiya Sabha and who should have been collected security deposits.	Actions will be taken to recover security deposits from officers.	Relevant action should be taken as per the circular.

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.35,031,797 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 44,237,824 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 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
Rates and Taxes	28,516	27,405	25,467	24,750	27,000	-	20,609	22,812
Rent	7,247	8,367	5,443	4,365	2,291	-	2,495	1,441
License Fees	6,405	2,171	2,171	99	7,000	-	4,222	99
Other revenue	<u>13,019</u>	-	<u>14,391</u>	-	<u>8,348</u>	-	<u>13,651</u>	--
Total	<u>55,187</u>	<u>37,943</u>	<u>47,472</u>	<u>29,214</u>	<u>44,639</u>	-	<u>40,977</u>	<u>24,352</u>

2.2.2 Performance in Revenue Collection

Audit Observation

Comments of the Sabha

Recommendation

(a) Rates and Taxes

As on December 31, 2022, the outstanding property taxes for more than 01 to 08 years were Rs.24,749,567.

For collection of arrear property tax, Form K is being issued mentioning the arrear value.

Relevant steps should be taken to recover the arrears.

(b) Other income

According to Section 149 of the Local Council Act No. 15 of 1987, license fees were not collected from 05 tourist hotels (hotels) registered with the Sri Lanka Tourism Board.

Due to the covid epidemic and the economic crisis in 2022, the income had decreased due to the absence of tourists. Due to this, taxes have not been paid.

License fees shall be charged enacting by law.

(c) Stamp duties

As on December 31 of the year under review, stamp duty receivable from the Chief Secretary of the Provincial Council and other authorities was Rs.39,070,250.

Requests have been made.

It should be remitted, as per Pradeshiya sabha (Finance and Administration) Rules 81

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

Comments of the Sabha

Recommendation

Regarding solid waste management, the **Sabha** had entered into an agreement with CGL in 2017 and the terms of the agreement had not been implemented by the date of the audit. According to clause 2.3 of the agreement, the **Sabha** had agreed to convert the waste collected by the **Sabha** into commercial products such as bio-ethanol, heating pellets, compost, hydrogen, animal feed and irrigation systems, which are currently not being implemented. But, this has not been implemented till date. Also, wild animal and health problems had arisen due to illegal dumping of waste at the Kinnia waste disposal site.

According to the agreement, all the activities should have been implemented by the respective CGL organization. However, this was not done. As mentioned in the relevant agreement, in carrying out a CGL activity, we will also contribute to this plan and regularize waste disposal.

Relevant action should be taken as per the agreement.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation

Comments of the Sabha

Recommendation

(a) 10 percent reserved for the public use of the Pradeshiya sabha in plotting private land, or land with an area of 01A 07R 7.29P land remained idle for more than 05 years without being used for any public use by the Pradeshiya Sabha.

We will take all measures to use these lands in the future.

Relevant measures should be taken to use.

(b) 03 shops in the shop complex consisting of 16 shops built in the year 2014 under the provisions of the Puraneguma project, have not been rented out to earn income since 2014.

There was no demand for 02 stalls.

Steps should be taken to rent out suitable stalls to earn income.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
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No maintenance and repair

08 vehicles belonging to the Sabha were supposed to be repaired, but the repairs were not carried on and they were not used.	The relevant mechanical engineer will be inquired regarding vehicle repairs, and the repair will be done at a suitable repair point.	Steps should be taken to repair and deploy it for the use of the Sabha.
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3.4 Defects in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
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Under the Rural Road Development Program (RRDP) - 2021 of the State Ministry of Rural Roads and Other Infrastructure, a total of Rs. 17,472,215 had been spent to lay concrete on 08 roads and 03 drainage systems of the Sabha by the end of the year under review. The following observations are made in this regard.

- | | | |
|---|---|--|
| (a) There were 08 large road cracks on 03 constructed roads. | As the RRDP works will be completed by the end of 2021, all community based organizations have been informed to correct the deficiencies during the maintenance period. | Relevant action should be taken to correct the deficiencies. |
| (b) Large pits with an area of 0.683m ³ were seen on the surface of 02 constructed roads. | The contractor, the community based organization was notified, but they were negligent as they were not paid in full. Relevant action will be taken by the Sabha. | - Do -- |
| (c) A total of Rs. 300,000 had been paid for the unfulfilled tasks by getting the recommendations of the technical officers that they had been fulfilled. | The Sabha will take immediate action regarding the above matter. | Payments made for unfinished works should be recovered. |
| (d) A total of Rs.80,000 was estimated and paid for planting trees on both sides of the concrete roads, but the program was not completed. | If the tree planting is not done by the contractor, It will be recovered from the deposit | Relevant action should be taken to correct the deficiencies. |

3.5 Identified frauds

Audit Observation

Comments of the Sabha

Recommendation

The Council had approved the employment of a field worker and an office assistant for tasks such as money transactions related to property taxes, preparation and issuance of receipts. Thereby a financial fraud of Rs.3,421,402 had occurred. The above outstanding balance included the value of this financial fraud.

In case of property tax fraud, file of court case is carried out.

Steps should be taken to recover defrauded money and disciplinary action should be taken.

3.6 Human Resources Management

Audit Observation

Comments of the Sabha

Recommendation

Staff Loan

Distress loan to be recovered from a suspended employee as on 31st December of the year under review was Rs. 227,500 and due from a retired officer was Rs.64,616.

Action will be taken to recover.

Relevant action should be taken to recover.

4. Accountability and Good Governance Budgetary Control

Audit Observation

Comments of the Sabha

Recommendation

The budget document was not used as an effective management control tool as there were 15 percent to 78 percent variances between the estimated expenditures of Sabha and actual expenditures.

Due to the economic crisis in the country and the bad situation of the increase in the prices of goods, there were variations in some of the expected expenditure subjects. Much attention will be paid to prepare this year's budget as an effective one.

Relevant measures should be taken to prepare the budget rationally.