

Verugal Pradeshiya Sabha - 2022

1. Financial Statements

1.2 Qualified Opinion

The audit of the financial statements of the Verugal 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 Verugal 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.

1.1 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.

1.2 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.

1.3 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) In the year under review, the interest income related to 09 fixed deposits was overstated by Rs.52,766.	This difference will be corrected in the next financial year.	Accounts should be corrected.
(b) Court fine charges due for the year under review amounting to Rs.824,831 were not accounted as income for the year.	This value will be corrected in the next financial year.	- Do -
(c) In the year under review, the cost of 07 items of equipment, furniture and fittings sold at auction for Rs.108,370 had not been identified and necessary adjustments had not been made.	The cost value of those goods will be corrected during the preparation of accounts for the next financial year.	- Do -
(d) For the month of December of the year under review, Receivables wages and members' allowances amounting to Rs.1,544,355 were not accounted as income receivable.	It will be corrected in preparation of accounts for the next financial year.	Steps should be taken to show as the receivables.
(e) The value of the goods donated by the Department of Local Government, Assistant Commissioner of Local Government and Chief Minister of the Eastern Provincial Council in the year under review amounted to Rs.1,063,003 was not accounted for.	It will be corrected in preparation of accounts for the next financial year.	Accounts should be corrected.
(f) In the year under review, the value of the Public Service Pavilion constructed at a cost of Rs.7,093,806 was not capitalized.	It will be accounted after construction is completed.	- Do -
(g) In the year under review, rent in arrears amounting to Rs.347,903 were not accounted for.	The correction will be made in preparing the accounts for the next financial year.	- Do -

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to the fact that the title deeds relating to land and buildings of Rs.58,903,932 included in the financial statements as on December 31 of the year under review and the fixed assets register had not been submitted for audit, they could not be satisfactorily verified.	Currently, the Sabha does not have the title deeds and land documents for the land and building value of Rs.58,903,932 indicated in the financial statements. Even so, the Sabha has taken the initial steps to get them.	Steps should be taken to provide evidentiary support for each point made in the financial statements.

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) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation No. 571	Lapse deposits of Rs.244,352 were not settled.	It will be complied with financial regulations	Relevant action should be taken as per financial regulations.
(ii) Financial Regulation No. 371	The advances of Rs. 625,999 taken for the period from 2008 to 2019 were not settled.	That unsettled advances will be processed as per financial rules and written off or legal action will be taken.	Advances should be settled.

1.7.2 Non -compliance with Tax Regulations

Audit Observation	Comments of the Sabha	Recommendation
Under the Provincial Specific Development Finance (PSDG) project 2019, the VAT payables of Rs.114,852 due for the Mavadisenei school road reconstruction work has not been settled till now.	That money will be transferred to income by following financial procedures.	Relevant procedures should be taken.

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. 631,836 as against the excess of recurrent expenditure over revenue amounted to Rs. 1,060,101 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 Rs. 000	Revenue billed Rs. 000	Revenue Collected Rs. 000	Arrears as at 31 December Rs. 000	Estimated Revenue Rs. 000	Revenue billed Rs. 000	Revenue Collected Rs. 000	Arrears as at 31 December Rs. 000	
i) Rates and Taxes	2	--	--	--	2	--	--	--	
ii) Rent	817	2,053	1,055	998	1,590	1,590	1,378	212	
iii) License Fees	407	231	231	--	348	272	272	--	
iv) Other revenue	1,522	1,698	1,698	--	1,008	320	320	--	
Total	<u>2,748</u>	<u>3,982</u>	<u>2,984</u>	<u>998</u>	<u>2,948</u>	<u>2,182</u>	<u>1,970</u>	<u>212</u>	

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rent		
i) The amount of shop rent in arrears, drinking water distribution charges and machine rent arrears amounting to Rs. 725,254 which is carried forward for more than 03 years, could not be recovered due to the inability to identify the relevant persons.	That the relevant persons and the related documents are identified and the prescribed financial procedures are followed and immediate action is taken to recover.	Relevant action should be taken in respect of arrears.
ii) The outstanding rent balance at the end of the year under review was Rs.1,210,000.	Actions regarding that financial deficiency will be adjusted in the financial statement prepared in the coming year.	- Do -

3. Operational Review Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Unclaimed assets		
Although 11 vehicles were used by the Sabha from 02 to 15 years, no steps were taken to take them over in the name of the Sabha.	The immediate action will be taken to take over those vehicles to the Sabha.	Steps should be taken to take over the vehicle in the name of the Sabha.
(b) Idle Assets		
(i) The ICE factory building costing Rs.1,483,472 located in the Estuary area of the Sri Lankan harbor remained idle since 2004 without being used for its intended purpose.	For the welfare of the fishermen, discussions will be held regarding the provision for a tea lounge.	Relevant action should be taken.
(ii) 04 tractors and a water bowser in the Sabha remained idle for a period of 01 to 04 years without repair.	Due to insufficient funds, it was not repaired.	Steps should be taken to repair or take relevant action on defective vehicles.
(iii) It was observed in the audit that there were 04 landing points belonging to the Sabha, but due to non-use of 02 landing points, the	Estimate reports have been sent to the Local Government Commissioner to repair these 03 landing points, and work is	Relevant action should be taken.

public faced great difficulties. The management had not taken steps to repair and use those landing points.

being done to get a new road with the support of an NGO.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

Comments of the Sabha

Recommendation

In the year under review, the Sabha had appointed an internal auditor, but no audit work had been carried out.

That the concerned officer has been informed to carry out the internal audit work in the prescribed period and submit the reports.

Audit work should be done by internal auditor.

4.2 Sustainable Development Goals

Audit Observation

Comments of the Sabha

Recommendation

According to circular No. V.S.Public/2018/61 dated April 23, 2018, the sustainable development program agenda to be achieved in the year 2030 was not prepared by the Sabha

Action will be taken to prepare the agenda for sustainable development in 2030.

Action should be taken to prepare the agenda of sustainable development.