

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Addalachenai 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 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 Addalachenai 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 Practicals, 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 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 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The salaries and allowances of Rs.2,780,964 paid to officers and members during the year under review was not disclosed in the financial statements.	The above matter will be corrected during the preparation of financial statements of this year.	Financial statements must be prepared accurately.
(b) Two completed constructions during the year under review amounting to Rs.9,862,329 was not capitalized.	-Do-	-Do-
(c) An amount of Rs.226,790 receivable at the end of the year under review on rent of motor grader and roller was not disclosed in the financial statements.	-Do-	-Do-

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.8,091,768 as compared with the excess of income over recurrent expenditure amounted to Rs.13,654,109 in the preceding year

2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
Stamp duty of Rs.11,743,147 received directly by the bank in the month of December for the year under review was shown as unrecognized receipts without accounting.	Due to lack of clear details, adjustments cannot be made in the year under review and taken into income on 01.01.2023.	Revenues related to the year should be recognized and accounted for at the same time.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information submitted by the Sabha, information 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	350,000	146,200	146,200	-	800,000	130,380	130,380	-
ii. Rent	11,960,000	9,954,669	8,583,869	1,370,800	2,860,000	7,714,108	7,709,358	394,050
iii. Income License	1,542,000	757,475	757,475	-	1,592,000	866,200	866,200	-
iv. Fees								
Other revenue	15,930,000	15,769,748	13,698,423	2,071,324	23,280,000	6,940,665	16,982,639	801,840
Total	<u>29,782,000</u>	<u>26,628,092</u>	<u>23,185,967</u>	<u>3,442,124</u>	<u>28,532,000</u>	<u>15,651,253</u>	<u>25,688,577</u>	<u>1,195,890</u>

2.3.2 Performance in Revenue Collection

The observations regarding performance in all revenue collection of the Sabha is shown below.

Audit Observation	Comments of the Council	Recommendation
(a) Rent The rent receivable from lease of property and ownerships as at 31 December of the year under review was Rs.1,169,750, of which Rs.273,300 remained in arrears for more than 07 years.	That people who do not pay arrears remain undetected and therefore those have been written off.	Steps should be taken to collect or settle the dues promptly.

(b) Trade Lisence

The Sabha had not taken legal action to grant trade licenses or take legal action in the year under review for 1,043 businesses that had not obtained trade licenses in the Sabha area.

At present, these operations are being carried out by officials through mobile services.

Trade licenses should be issued according to the by-laws and arrangements should be made to get income.

(c) Courts Fines and Stamp Duty

Court fine fees of Rs.8,385,400 and stamp duty of Rs.1,583,267 were due from the Chief Secretary of the Provincial Council and other authorities as of 31 December 2022.

That the steps have been taken to collect the arrears.

Steps should be taken to recover the revenue due immediately.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The weighing equipment in the main solid waste center of the Sabha, which receives the solid waste of 02 Municipal Councils and 04 Pradeshiya Sabhas, had been damaged by lightning since three years ago, and the Sabha had not taken steps to repair them and protect them from lightning strikes in the future. Due to this, weighing work was done based on approximate estimates and fees were charged. Due to this, the actual income receivable to the Sabha had been lost.	Steps are being taken to repair faulty weighing equipment.	Weighing equipment should be repaired immediately.
(b) No steps had been taken to effectively utilize the balances of 02 bank current accounts amounting to Rs.1,293,948 even at the end of the year under review, which had been inactive for more than 04 years.	That the steps are taken to invest in sources of income generation.	Current account balances should be used effectively.

(c) The value of 33 lands and 31 vehicles had not been assessed and accounted for even at the end of the year under review.	That the steps are taken to assess the value.	Valuation and accounting of assets should be expedited.
(d) 386 beneficiaries belonging to the council areas had collected Rs.810,000 as deposit for the restoration of cut concrete and asphalt roads to get water connection from the National Water Supply and Drainage Board as at the end of the year under review. Even as on the date of the road audit, The Sabha had not taken any steps to repair by beneficiaries and refund the deposited amount or repair from the said fund.	That the steps will be taken to repair the roads and return the deposited money to the beneficiaries.	Steps should be taken to restore the roads which cut to get water connection.
(e) Although it was decided in the general meeting of 2019 to recover the arrears of solid waste disposal charges amounting to Rs.957,996, which had been overdue for 05 years as on 31 December 2019, from Karaitivu local council through legal measures, action had not been taken to recover the arrears partially through legal action due to the financial position of the Sabha as at 31 December 2022.	That the steps will be taken to promptly recover uncollected dues.	Steps should be taken to recover the uncollected dues promptly.

3.2 Idle Assets

Audit Observation

Action had not been taken to use the Animal Bone Grinding Plant which was built in Pallakkadu village with funds of Rs.1,400,000 given under the Provincial Specific Development Grants in 2014.

Comments of the Council

Even though the Sabha informed the concerned institution, no formal agreement has been reached so far.

Recommendation

Action should be taken to use the Animal Bone Grinding Center very soon.

3.3 Assets Management

Audit Observation

- (a) 13 vehicles owned by the Sabha had not been repaired and reused or properly disposed of.

Comments of the Council

Action has been taken to repaired and sold at auction regarding the vehicles.

Recommendation

Vehicles should be repaired and reused or disposed of

- | | | | |
|-----|--|--|--|
| (b) | Some of the playground equipment in the Addalachchena and Palamuna children's playgrounds were damaged and rusted due to lack of adequate safety, maintenance and repair. It was observed that there is a risk that they will be completely destroyed in the future due to the Sabha did not take proper measures to protect them. | Actions are currently being taken to repair it. | appropriately. Steps should be taken to carry out adequate maintenance and repair work in the sports ground. |
| (c) | No action had been taken to transfer the ownership of 07 vehicles donated by the Ministry of Provincial Councils and Local Government and other ministries to the name of the Sabha by the end of the year under review. | That there have been delays in the transfer of ownership due to huge amount of customs duty payable on the above vehicles. | Steps should be taken to transfer ownership of vehicles to the name of the Sabha. |

3.4 Procurement Management

Audit Observation

The Sabha had to pay an extra amount of Rs.243,600 to suppliers due to occasional purchases of goods without a procurement plan.

Comments of the Council

That the procurement plan could not be implemented due to the bad situation in the country.

Recommendation

Procurement should be done by implementing a formal procurement process.

3.5 Human Resource management

Audit Observation

The Sabha had not taken action to recover the outstanding loan balance of Rs.218,772 from those persons or guarantors or to take appropriate decision, which had to be collected from 07 officers who died, retired and left the service

Comments of the Council

That the action has been taken to recover.

Recommendation

Steps should be taken to recover outstanding loans from the concerned persons or guarantors or take appropriate decision.

4. Accountability and Good Governance

Environmental Issues

Audit Observation

According to the National Environment Act No. 47 of 1980 as amended by Acts No. 56 of 1988 and No. 53 of 2000 and the regulations thereunder, there were 100 industrial establishments that were required to obtain licenses, but the Sabha had not taken any action to renew the expired licenses of 32 industrial establishments.

Comments of the Council

That license renewals have been expedited.

Recommendation

Renewal of licenses shall be done in accordance with the National Environment Act No. 47 of 1980 as amended by Acts No. 56 of 1988 and No. 53 of 2000 and the regulations thereunder.