

Dehiattakandiya Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Dehiattakandiya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising Statement of financial position as at 31 December 2022, Statement of Financial Operations 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 Dehiattakandiya 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.

- (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 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 Observations	Comments of the Council	Recommendations
(a) The refundable deposit balance for shop rent as at 31 December of the year under review had been under-accounted by Rs. 2,364,450.	That the necessary rectification will be done through the final accounts – 2023.	Should be properly accounted.
(b) The value of shop rent billings related to the year under review had been under-accounted by Rs. 803,948.	That the shop rent balance for the year was accounted by adjusting the actual closing shop rent balance by removing the difference between the opening shop rent balance and the actual shop rent balance.	The billing value for the year should be accurately accounted.
(c) The total value of Rs. 20,941,054 for 04 development projects carried out during the reviewed year, under the Regional Development Assistance Project had not been capitalized.	This error will be corrected by the final accounts of 2023.	Should be properly accounted.

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. 2,903,119 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 1,918,824 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 council, 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	1,649,311	1,483,222	1,555,086	2,151,246	1,539,312	1,482,785	1,355,649	2,223,110
ii. Rent Income	16,341,697	10,844,798	19,072,517	1,893,475	15,028,444	14,841,767	6,390,997	10,121,194
iii. License Fees	2,102,500	2,331,712	2,167,062	526,300	2,102,500	1,956,962	1,822,912	361,650
iv. Other revenue	<u>4,387,860</u>	<u>5,198,578</u>	<u>5,398,102</u>	<u>269,689</u>	<u>3,298,420</u>	<u>3,669,780</u>	<u>3,654,808</u>	<u>469,213</u>
Total	<u>24,481,368</u>	<u>19,858,310</u>	<u>28,192,767</u>	<u>4,840,710</u>	<u>21,968,676</u>	<u>21,951,294</u>	<u>13,224,366</u>	<u>13,175,167</u>

2.2.2 Revenue Collection Performance

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observations	Comments of the Council	Recommendations
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(a) Assessments and Taxes

The balance of outstanding assessment was Rs. 2,151,246 as at 31 December of the year under review.

That the legal proceedings could not be carried out due to economic and health crises in the past several years.

According to the provisions of the Act, the arrears of income should be recovered promptly.

(b) Rent Income

The outstanding rent balance was Rs. 1,643,999 as at 31 December of the year under review.

That the arrears are currently being recovered as well as the related shop agreements are being canceled and the shops are being handed over to the local council and re-procurement activities are being carried out.

As per the agreement, the arrears should be recovered promptly.

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 Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
(a) The local council had not been maintained a register containing information regarding 06 fixed deposits worth Rs. 34,910,000 as at 31 December of the year under review and the fixed deposit interest receivable had not been correctly calculated and accounted.	That necessary actions will be taken to correct in the future.	A register should be maintained and interest receivable should be calculated and accounted.
(b) Ledger accounts had not been prepared for 08 account balances worth Rs. 250,391,167 as at 31 December of the year under review.	That the all balances will be presented through ledger accounts in the future.	Separate ledger accounts should be maintained for each balance.
(c) It was observed that 20 out of 49 shop rooms in the bus stand area belonging to the local council had been sub-leased by the shop owners and the council had not been taken any related actions as per the agreement.	These shop owners have now been blacklisted and have been referred to the Governor of Eastern Province to take legal action in this regard.	Necessary actions should be taken to avoid sub-leasing.

3.2 Operational Inefficiency

Audit Observation	Comment of the Council	Recommendation
Assessment tax is levied based on the assessment of 2011 on the property belonging to the local council jurisdiction and actions had not been taken to assess the property and to levy assessment tax on it at the time.	That many requests for this have been made annually to the Batticaloa Valuation Department, but due to their delays, it has not been possible to carry out a new valuation.	Valuation and collection of tax money should be done timely.

3.3 Assets Management

Audit Observations	Comments of the Council	Recommendations
(a) According to the financial statements of the local council, the values mentioned in the schedules related to the classifications of fixed assets, which were worth Rs. 311,267,148, had not been included in the fixed assets registers.	That will be rectified in the future.	Values should be entered in fixed asset registers and should be maintained up to date.
(b) The value of 44 cemeteries and 38 playgrounds belonging to the local council had not been recognized and accounted.	Actions are being made for formal surveying of this property and valuations can be made after a formal handover by Sri Lanka Mahaweli Authority.	Value should be recognized and accounted.

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| (c) | The value of 03 vehicles owned by the local council had not been identified and accounted. | That the error will be rectified in this year. | - Do - |
| (d) | The value of 27 items of good items received as donations to the local council during the year under review, had not been identified and accounted. | That the necessary actions will be carried out to account in the future. | - Do - |
| (e) | 05 unusable vehicles in the possession of the council had been remained idle for 9 years. | That the Eastern Provincial Council is currently conducting the necessary actions for the auction of idle vehicles. | Vehicles in idle condition should be sold at auction. |
| (f) | The backhoe loader owned by the council which can be serviced and re-used had been remained idle since 2021. | It is estimated that it will cost around Rs. 35 lakhs to repair, so it is not possible to repair because the council cannot bear that money. | In the submission of project proposals, priority should be given to this and repairs should be made. |
| (g) | The council had not taken actions to transfer the ownership of the 08 vehicles used by the council, to the name of the council. | The council has not been able to transfer the vehicles donated to the council by the UNEP and since council does not have formal transfers of the vehicles given by other organizations and donated, it has not been possible to transfer the vehicles. | Ownership of vehicles should be transferred to the name of the council. |

3.4 Human Resource Management

Audit Observations	Comments of the Council	Recommendations
(a) There were 13 posts in the council had been vacant, including 02 posts of Revenue Inspector at the end of the year under review.	It was unable to resolve this issue, on the delay of these recruitments by the Eastern Provincial Council.	Necessary actions should be taken to fill up the vacancies.
(b) According to the employee loan register, it was observed that 02 loan balances worth of Rs. 123,060 had been remained unpaid.	Necessary actions will be made to charge in the future.	Actions should be made to recover the loan balance.