

## **Lahugala Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Lahugala 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 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 Lahugala 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

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
(a) The stamp duty income of Rs. 139,575 received in the year 2022 in relation to the period from January to December 2020 had been accounted as income of the year under review.	That the accounting will be done correctly in the year 2023.	Should be properly accounted.
(b) The stamp duty income of Rs. 225,905 had not been accounted as at 31 December of the year under review.	That the stamp duty income due in the year 2023 will be accounted.	- Do -
(c) There was an unidentified debit balance of Rs. 1,209,902 as cash transfers between accounts as at 31 December of the year under review.	that it will be identified and resolved.	Should be identified and resolved.

### 1.6.2 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Although the balance of fixed assets as at 31 December of the year under review should be equal to the balance of the account of contribution from income to capital investment, there was a mismatch of Rs. 139,939,907.	That will be corrected in the future.	Reasons for mismatches should be found and corrected.

## 1.7 Non- Compliances

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

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions etc. are shown below.

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(a)	Financial Regulation 371	Although the council has information about the officials who have received advances of Rs. 83,500 out of the Rs.86,066 advances that have been given for a period of 10 to 24 years as at 31 December of the year under review, those balances had been continuously brought forward in the financial statements without taking any actions to settle them.	That it will be identified and corrected in the future.	Actions should be made to settle.
(b)	Financial Regulation 571	Necessary actions had not been taken to release the deposit balances worth Rs. 1,184,551 to the relevant parties, which had been deposited over 02 years or to collect income as per F.R. 571.	That deposits which are over 02 years will be taken into income as per F.R. 571.	Should be dealt with according to financial regulations.

### 1.7.2 Non -compliance with Tax Regulations

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The stamp duty value of Rs. 117,153 from the year 1987 to the year 2022 had been remained in the general deposit account without sending it to the Inland Revenue Department.	That an amount of Rs. 15,125 of stamp duty was sent to the Inland Revenue Department between the third quarter of 2022 and the first quarter of 2023.	Actions should be made to send the stamp duty to the Inland Revenue Department without delay.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December 2022 amounted to Rs. 703,641 as against the excess of revenue over recurrent expenditure amounted to Rs. 56,045 in the preceding year.

### 2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
The council had not been taken actions to settle 05 balances of Rs.116,935 which were continuously brought forward in the statements of bank reconciliation related to two bank accounts belonging to the local council.	These values have existed for many years and those values will be identified and eliminated in the year 2023.	These balances should be identified and settled.

### 2.3 Revenue Administration

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

According to the information presented by the chairman, 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	-	-	-	-	-	-	-	-
ii. Rent Income	1,891,000	490,512	350,663	139,849	2,391,000	537,511	336,903	200,608
iii. License Fees	425,000	157,500	157,500	-	310,000	242,201	242,201	-
iv. Other revenue	700,000	246,264	246,264	-	2,425,000	2,260,933	1,886,103	374,830
Total	<u>3,016,000</u>	<u>894,276</u>	<u>754,427</u>	<u>139,849</u>	<u>5,126,000</u>	<u>3,040,645</u>	<u>2,465,207</u>	<u>575,438</u>

### **3. Operational Review**

#### **3.1 Assets Management**

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
(a) Although the value of the buildings belonging to the local council had been accounted, the value of the land on which those buildings were located had not been identified and accounted.	That the values of the buildings will be recognized and accounted in the year 2023.	The value of the Land should be identified and accounted.
(b) 13 vehicles owned by the council had not been repaired and reused or properly disposed.	It is very difficult to allocate the necessary provisions to repair the vehicles and these vehicles can be repaired only by increasing council income.	Vehicles should be repaired and reused or sold at auction.
(c) Necessary actions had not been taken to transfer the ownership of the 10 vehicles used by the council to the name of the council.	That the ownership of these vehicles will be taken over in the future.	Ownership of vehicles should be transferred to the name of the council.

#### **3.2 Human Resource Management**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
There were 15 posts in the council had been vacant, including the post of Secretary of the council at the end of the year under review.	That the top level officials have been informed in this regard and the office work is being conducted with great difficulty.	Necessary actions should be taken to fill up the vacancies.