

Padiyathalawa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Padiyathalawa 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 Padiyathalawa a 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 Observation	Comment of the Council	Recommendation
(a) In the year under review, a value of Rs.1,612,525 incurred for the development of the day care center building and purchase of goods under the regional development assistance project had not been capitalized.	Accepted. That the purchased asset items of Rs. 1,612,525 will be capitalized and accounted while preparing the financial statements for the year 2023.	Should be properly accounted.
(b) The value of Rs. 295,000 incurred for the construction of the access road and white iron fence for the disabled persons of the public toilet constructed in the year under review and the value of Rs.1,251,650 incurred for the construction of 02 tube wells had not been capitalized.	Accepted. It will be capitalized and accounted while preparing the financial statements for the year 2023.	- Do -
(c) Creditors of Rs. 1,041,877 due in respect of the year under review had not been accounted.	Accepted. That the accounts will be properly accounted while preparing the financial statements for the next year.	- Do -

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Council	Recommendation
(a) There was a mismatch of Rs. 18,862,107 with the balances of 03 financial statements and their respective schedules as at 31 December of the year under review.	Accepted. The difference in general store balance is a balance that has existed for many years. That the accounts will be properly accounted while preparing the financial	Documents should be properly updated and reasons for mismatches should be identified and corrected.

statements for the next year.

- (b) The balance of the Regional Development Assistance project account and the cash book was zero, but there was a balance of Rs.1,852,113 in the money transfer ledger account and this balance had not been recognized and settled as at 31 December of the year under review. Accepted. That the balance of the money transfer account will be corrected through journal entries while preparing the financial statements for the next year. The balance should be identified and settled.

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. 1,046,831 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 4,434,941 in the preceding year.

2.2 Financial Control

Audit Observation

Comment of the Council

Recommendation

Due to non-investment of the balance of Rs. 972,035 in the account number 5709296 belonging to the local council, the council had been incurred a loss of Rs. 145,805 based on the prevailing interest rate.

Accepted.
That adequate actions will be taken in this regard in the future.

Actions should be taken to invest in a fixed deposit and get interest income.

2.3 Revenue Administration

2.3.1 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	206,000	228,910	228,910	-	236,000	131,500	131,500	-
ii. Rent	6,177,000	5,083,410	5,977,837	1,895,524	6,202,000	5,198,880	3,611,352	2,789,951
iii. Income License Fees	276,000	265,175	265,175	-	401,000	482,021	482,021	-
iv. Other revenue	2,634,000	2,783,788	2,783,788	24,115	3,080,291	2,442,210	2,442,210	24,115
Total	9,293,000	8,361,283	9,255,710	1,919,639	9,919,291	8,254,611	6,667,083	2,814,066

2.3.2 Revenue Collection Performance

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

Audit Observation	Comment of the Council	Recommendation
Rent		
(a) The outstanding rent balance was Rs. 1,895,524 as at 31 December of the year under review.	Out the rent arrears Rs. 96,610 has been recovered and other arrears are being collected.	Arrears of income should be recovered promptly.
Other Revenue		
(b) Court fines and stamp duty revenue that should have been received from the Chief Secretary of the Provincial Council and other authorities was Rs. 870,650 as at 31 December 2022.	That will be recovered.	Arrears of income should be recovered promptly.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
A stock of street lamp items worth Rs. 876,150 purchased by the local council under the infrastructure development program had been remained idle in the store for over 11 months without installation.	The installation work of the street lamps could not be done due to the accident of the electrician and the installation work is currently being done on priority basis.	Purchases should be made on requirement basis only.

3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) According to the financial statements of the local council, the value of the fixed assets worth Rs.697,419,646 not been prepared according to the classifications, identified by the value of each item and included in the fixed assets registers.	Accepted. That the schedules will be prepared according to the classification of fixed assets.	Schedules should be prepared and actions should be made for inclusion in fixed asset registers.
(b) The value of 36 cemeteries owned by the local council had not been identified and accounted.	Accepted. That the cemetery value will be assessed in the future.	Value should be recognized and accounted.
(c) Actions had not been taken to take over the ownership of 10 vehicles to the council's name and 07 vehicles had not been repaired and reused or the vehicles that could not be repaired were given to the relevant institutions and sold at auction by the council.	Accepted. That the request letters for transferring to concerned institutions and 06 vehicles have been assessed for auction and letters have been sent to those institutions.	Necessary actions should be taken to take over the ownership of the vehicles and auction to unusable vehicles.

3.3 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
At the end of the year under review, there were 09 vacancies in the council and the necessary actions had not been done to fill the vacancies.	That the vacancies have been notified and action has not been taken at the top level.	Necessary actions should be taken to fill up the vacancies in the staff.