

Pothuvil Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pothuvil 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 Pothuvil 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

1.6.1 Accounting Deficiencies

Audit Observations	Comments of the Council	Recommendations
(a) The final payments of Rs.5,672,645 for the building construction work completed in the year under review under the Regional Development Grant Program were not shown in the financial statements.	That will be disclosed in future financial statements.	Financial statements should be prepared accurately.
(b) Court fine and stamp duty amounting to Rs.12,302,808 were understated in the financial statements during the year under review.	-Do-	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.581,474,742 between two items in the balance sheet and notes to the balance sheet of the year under review.	Action will be taken to correct in the next financial year.	Financial statements should be prepared accurately.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over income of the Sabha for the year ended 31 December 2022 amounted to Rs.18,181,148 as against the excess of income over recurrent expenditure amounted to Rs.14,696,274 in the preceding year

2.2 Revenue Administration

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

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	1,625,000	1,625,000	750,000	875,000	1,510,000	1,510,000	-	1,510,000
ii. Rent Income	18,820,000	29,462,566	7,831,967	13,568,608	18,870,000	15,927,282	5,284,716	10,642,566
iii. License Fees	4,910,000	2,642,220	2,642,220	2,267,780	4,360,000	2,020,150	2,020,150	-
iv. Other revenue	8,705,000	5,798,665	5,798,665	2,906,334	6,550,000	6,550,000	7,927,123	-
Total	<u>34,060,000</u>	<u>44,702,566</u>	<u>17,022,852</u>	<u>19,617,722</u>	<u>31,290,000</u>	<u>26,007,432</u>	<u>15,231,989</u>	<u>12,152,566</u>

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

Audit Observations	Comments of the Council	Recommendations
<p>(a) Rates and Taxes As per Section 134 of the Local Council Act, the Sabha had failed to levy Rates and taxes on the annual value of 11,652 residential properties and 528 business premises for more than 16 years in the council's jurisdiction.</p>	That the Rates and Taxes will be levied.	Action should be taken to levy Rates and Taxes.
<p>(b) Rent (i) Out of the Rs. 4,287,520 market shop rent payable on 31 December of the year under review, Rs. 171,520 was due from 11 tenants for a long period of 10 to 20 years.</p>	Action will be taken to recover in the future.	Steps should be taken to collect the recoverable income promptly.
<p>(ii) Out of Rs.9,281,088 due from lease till 31 December of the year under review, the outstanding balance for the period from 1995 to 2021 was Rs.5,388,936.</p>	That the arrears that have been coming for a long time will be write off and the arrears of 2020 and 2021 will be collected.	Steps should be taken to collect or write off the revenue immediately.

(c) **Stamp Duty**

Although the difference between the amount of stamp duty sent by the council and the amount sent by the Eastern Provincial Inland Revenue Department for the period from 2019 to 2022 was Rs. 595,850, action had not been taken to compare the difference and to get the correct stamp duty value.

Action will be taken to request and to recover the difference value.

Steps should be taken to collect the arrears stamp duty.

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 Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

	Audit Observations	Comments of the Council	Recommendations
(a)	A sum of Rs.1,999,907 had been given from the Sabha fund for the purchase of furniture in the year 2015, had not been reimbursed from the Assistant Local Government Commissioner.	That the financial provision was made in the budget and that the value was decided to be settle.	Steps should be taken to reimburse.
(b)	The Sabha was unable to recover the arrears of Rs.3,276,000 to be collected through legal proceedings due to not obtaining the signatures of the tenants for the agreements prepared for 39 stalls in the public market.	That the steps have been taken to get signatures from the tenants and collect arrears.	Steps should be taken to recover arrears of rent through legal action.
(c)	Two revenue generating machines and a heavy vehicle belonging to the council remained idle without repair for a period of 01 to 06 years.	That action will be taken to repair these machines and generate income.	Steps should be taken to repair and reuse.
(d)	The total balance of Rs.925,064 in 03 bank current accounts which have been inactive for more than 06 years had not been effectively invested.	That the dormant bank balances will be utilized in revenue generating sources following the prescribed methods.	Arrangements should be made to invest in sources of income generation.

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| (e) | The values of 27 items donated from the Department of Local Government and the Office of the Assistant Commissioner of Local Government in the year under review had not been calculated and accounted for. | That will be disclosed in future financial statements. | Financial statements should be prepared accurately. |
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3.2 Idled Assets

Audit Observation

The council did not take formal measures to complete and rent out 16 shop rooms located on the upper floor of the pothuvil public market building of the council in the year under review.

Comments of the Council

Action will be taken to complete and rent out these shops.

Recommendation

Shops should be completed and rented out promptly.

3.3 Assets Management

Audit Observations

- (a) The value of 264 lands and buildings and 42 vehicles owned and used by the council had not been assessed and accounted for even at the end of the year under review.

Comments of the Council

That the ownership documents will be obtained and accounted for in the future.

Recommendations

Action should be taken to revalue and accounted for the actual value.

- (b) 20 vehicles owned by the council, which have been idle for more than 05 years, have not been repaired and reused or properly disposed of.

That action will be taken to repair by council funds.

Action should be taken to repair and reuse or sale at auction.

- (c) The ownership of 11 vehicles used by the council had not been transferred to the name of the council by the date of the audit.

Action will be taken to transferred to the name of the council.

Steps should be taken to transfer ownership of vehicles to the name of the council.

- (d) As the ownership of the double cab vehicle given to the council by an international aid agency in the year 2013 was not transferred to the name of the council after paying the tax, the council could not get full insurance for this cab. Due to this, the related vehicle had an accident in the year under review and had to pay Rs. 235,000 from the Sabha's fund for repairs.

The ownership of the car will be transferred to the name of the council after paying the tax in the future.

The ownership of the car should be transferred to the name of the council after paying the tax.

3.4 Procurement Management

Audit Observation

In accordance with Guideline 4.2.1 of the Government Procurement Guidelines and National Budget Department Circular No. 128 dated 24 March 2006, no procurement plan was prepared for supplies and services in the year under review.

Comments of the Council

Purchase will be done at one time by the procurement plan in future.

Recommendation

Preparation of procurement plan should be done.

3.5 Human Resource Management

Audit Observations

(a) There were 16 employee vacancies and an excess of 02 employees in the council and those employees had not transferred per mentioned in the annual transfer procedure. Also, there were 12 employees who were absorbed in the 180-day program for vacant positions in the council, but the council had appointed 52 employees on a casual basis and spent Rs. 12,435,835 annually to pay them from the council fund.

Comments of the Council

Action will be taken to correct in the future.

Recommendations

The annual transfer procedure should be followed and vacancies should be filled.

(b) The council had not taken appropriate measures to recover the outstanding loan balance amounting to Rs.1,254,609 from 19 officers who left the service, died, transferred and from 05 temporary employees.

Action will be taken to recover the arrears loans.

Arrangements should be made to collect outstanding loan balances.

3.6 Management of Vehicle Fleet

Audit Observation

Annual revenue licence and insurance certificates were not obtained for 20 vehicles used by the council.

Comments of the Council

That arrangement will be made to obtain annual revenue licenses and insurance certificates in the coming financial year.

Recommendation

Arrangements should be made to obtain annual revenue licence and insurance certificates.

4. Accountability and Good Governance

4.1 Solod Waste Management

Audit Observation

Raw materials amounting to Rs.499,880 were purchased from the financial allocation provided by the Eastern Local Government Department to take necessary measures to prepare organic fertilizers using the existing solid waste in the council area. The organic fertilizers produced by this were left at the center without being properly packaged and maintained in a manner suitable for sale.

Comments of the Council

Action will be taken to package in a suitable manner and maintained in a manner suitable for sale.

Recommendation

It should be properly packaged and maintained in a manner suitable for sale.

4.2 Environmental Issues

Audit Observation

Out of 156 industrial establishments that had obtained environmental permits in the past, 46 industrial establishments had not been renewed their expired permits.

Comments of the Council

Action should be taken to renew the expired license.

Recommendation

Books should be maintained and environmental permits should be issued.