

## **Sammanthurai Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sammanthurai 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 Sammanthurai 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 Observation	Comments of the Council	Recommendation
(a) The sum of Rs. 4,330,840 paid as salaries to the officers and allowances to the member for the month of December of the year under review was not shown in the financial statements.	Adjustments will be made in the next financial statements.	Financial statements should be prepared accurately.
(b) The stock of consumer, electrical and stationery items amounting to Rs.838,224 and the stock in the sales center amounting to Rs.408,500 as at end of the year under review, had not been disclosed in the financial statements.	-Do-	-Do-
(c) Cost of 30 items including computers, machinery and equipment sold at auction in the year under review have not been deducted from assets.	-Do-	-Do-
(d) The value of the television amounting to Rs.282,659 which was received from the Local Government Department in the year under review was not shown in the financial statements.	-Do-	-Do-

- (e) There was a total difference of Rs.10,148,738 between the balance according to the financial statement and the balance according to the ledger relating to 07 accounting subjects. -Do- -Do-

## **2. Financial Review**

### **2.1 Financial Result**

According to the Financial Statements presented, excess of expenditure over recurrent income of the Sabha for the year ended 31 December 2022 amounted to Rs.14,974,592 as against the excess of income over recurrent expenditure amounted to Rs.23,642,420 in the preceding year

### **2.2 Financial Control**

#### **Audit Observation**

Due to the existing inefficiency in collection of the estimated income of the Sabha , and uneconomic expenditure, the expenditure had increased by Rs.14,924,592 over the recurring income of the year under review. Also, due to the increase of expenses paid by Rs.20,117,850 more than the income earned in the relevant year, the council had spent Rs.20,358,700 of the cash balance saved in the previous year to settle these expenses.

#### **Comments of the Council**

That the additional costs incurred due to the increase in prices due to Covid-19.

#### **Recommendation**

Efficiency in collection of estimated revenue and economy of expenditure should be maintained.

### **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	7,348,748	32,474,661	9,041,949	23,432,712	10,610,000	26,253,226	3,253,226	22,883,530
ii. Rent Income	32,408,746	39,182,350	31,536,857	7,645,492	32,067,746	35,894,941	25,540,605	10,354,335
iii. License Fees	3,080,000	1,941,350	1,941,350	-	2,050,000	1,750,350	1,750,350	-
iv. Other revenue	13,706,000	3,770,315	3,770,315	-	14,459,000	8,311,463	8,311,463	-
Total	<u>56,543,494</u>	<u>77,368,676</u>	<u>46,290,471</u>	<u>31,078,204</u>	<u>59,186,746</u>	<u>72,209,980</u>	<u>38,855,644</u>	<u>33,237,865</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
<b>(a) Rates and Taxes</b>		
The outstanding Rates and taxes as at 31 December 2022 was amounted to Rs.23,432,712.	That the measures have been taken to collect Rates and taxes.	Steps should be taken to collect the outstandings promptly.
<b>(b) Rent</b>		
(i) Rent of Rs.2,840,896 was not collected from butcher shop due in the year under review. Also, no action was taken to recover Rs.1,105,120 due from 12 tenants continuing before the year 2017.	That the correct balance will be identified and steps will be taken to collect the rent.	-Do-
(ii) The common market rent receivable as at end of the year under review was Rs. 3,518,430 and out of which Rs. 1,017,080 was due from a lessee for more than 05 years.	-Do-	-Do-
<b>(c) Stamp Duty</b>		
The stamp duty that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December 2022 was Rs.7,411,812.	Action will be taken to recover in the future.	-Do-

### 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

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Approval was received from the governor in the year under review, to write-off the arrears income of open market, butcher stalls and stalls by Rs.9,100,054 due to the Covid 19 and economic crisis of the year 2021. Even so, the Sabha had been written-off only Rs.3,105,238. Due to this, the arrear rent of Rs.5,994,816 was overstated in the financial statements in the year under review.	That this matter will be adjusted in future financial reports.	Adjustments should be made to the financial statements.
(b) The Sabha had not taken steps to get the actual number of shops within the Sabha area by conducting a survey of shops estimated to levy trade license fees for the period from 2018 to 2022 and shops levied. Due to this, there had been a variation of Rs.1,588,545 between the estimated income and the levied income.	That this matter will be properly implemented in the near future.	Arrangements should be made to obtain the actual number of shops within the Sabha area.
(c) The sabha had levied Rates and Taxes for less property units without based on the total number of immovable property units assessed by the valuation department for the period from 2018 to 2022. Due to this, the Sabha had lost income of (approximately) Rs.10,582,996 in the last 5 years.	-Do-	Steps should be taken to collect Rates and taxes based on the total number of immovable property units assessed by the Valuation Department.
(d) The Sabha had charged two types of fees for solid waste disposal services from the public, Rs.360 per year for 1,889 families receiving Samurdhi subsidy and Rs.600 per year for 2,296 families not receiving Samurdhi subsidy. However, there was a difference of Rs.1,451,552 between the revenue collected by the Sabha and the estimated revenue for the year.	-Do-	The differences between the estimated and collected revenues should be compared annually from the revenue collected.

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| (e) | 849 beneficiaries belonging to the council areas had charged Rs.1,255,000 as a deposit to rehabilitate cut concrete and asphalt roads to get water connection from the National Water Supply and Drainage Board by the end of the year under review. As of the date of the road audit, neither the beneficiaries have rehabilitated the roads and returned the deposits nor the Sabha has taken steps to rehabilitate the roads from the said fund. | That action is to be taken in this regard. | Steps should be taken to rehabilitate the cut concrete and asphalt roads. |
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### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The Sabha had not maintained records containing the value of 52 total lands and buildings owned and used by the Sabha.	That the steps have been taken to document the assets.	Steps should be taken to document the assets.
(b) The ownership of 06 vehicles used by the Sabha had not been transferred to the name of the Sabha till the date of audit.	That the ownership will be transferred to the name of the Sabha.	Steps should be taken to transfer the ownership of the vehicles to the name of the Sabha immediately.

### 3.3 Defects in contract administration

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Chennal Village - 1 Al Hamra - 07 road was renovated at a cost of Rs.942,995 during the year under review but it remained potholed, rocky and hilly. Also, due to the fact that the road is not leveled and prepared with gravel on both sides, there is a high risk of accidents for pedestrians and school students using this road.	This road will be fully renovated when funding is available.	Action should be taken to obtain Financial provision and steps should be taken to completely restore the road.

### 3.4 Human Resource management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Regarding the surplus employees in the number of employees approved for the Sabha, the Sabha had not made an	Action will be taken to implement in the future.	Arrangements should be made to revise the number of staff

amendment in the number of staff vacancies and had not taken steps to get the necessary employees. Due to this, 85 acting employees were temporarily appointed for the vacant positions to carry out the operations of the Sabha and Rs.34,137,289 were spent from the Sabha fund in the year under review.

vacancies.

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| (b) | The Sabha had not taken appropriate measures to recover the outstanding loan balance amounting to Rs.186,601 from 18 officers in the reviewed year from those persons or guarantors due to reasons such as death, retirement and transfer. | Arrangements have been made to recover outstanding loan balances. | Action should be taken to recover outstanding loan balances. |
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**4. Accoutability and Good Governance**

**Environmental Issues**

**Audit Observation**

The Sabha had not taken action to renew the expired environmental licenses of 26 institutions.

**Comments of the Council**

Action will be taken to renew the environmental lisencc.

**Recommendation**

Arrangements should be made to renew environmental lisencc.