

## **Lankapura Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of financial statements of the Lankapura Pradeshiya Sabha for the year ended 31 December 2023 comprising the notes to the financial statements, statement of assets and liabilities, statement of net assets/ changes in equity, cash flow statement as at 31 December 2023 and other explanatory information of significant accounting policies was carried out 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 Subsection 172(1) of the Pradeshiya Sabhas Act, No. 15 of 1987 and provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Lankapura Pradeshiya Sabha as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **1.2 Basis for Qualified Opinion**

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 Sri Lanka Public Sector Accounting Standards for Local Authorities 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 Sub-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 to be prepared of the Sabha.

#### **1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## .15 **Report on Other Legal Requirements**

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements presented by the Pradeshiya Sabha are 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 observation on the preparation of financial statements

### 1.6.1 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) As the interest amounting to Rs.296,020 received relevant to the previous year of the savings account No.23220010774487 of the People's bank adjusted to the interest income account of the year under review, the interest income of the year under review had been over stated from the same amount.	Has been accepted	Interest income should be brought to accounts accurately.
(b) The interest receivable amounting to Rs.117,123 relevant to the year under review for the fixed deposit No.2300306 which was opened in Bank of Ceylon on 06.December in the year under review, had not been adjusted.	It has been informed that action will be taken to rectify it by Journal No.02	Financial Statements should be presented accurately.
(c) Even though the revenue of court fines relevant to the year under review amounted to Rs.10,649,801, as a result of the same revenue had been brought to accounts as Rs.5,545,611, the revenue had been under stated in accounts by Rs.5,104,190.	It has been informed that after receiving of accurate billed income, action will be taken to bring to account the difference between the estimate income and actual income.	Accurate income should be identified and brought to accounts.
(d) Even though the revenue of stamp duty relevant to the year should be amounted to Rs.3,878,900, due to the same revenue had been brought to account as Rs.1,624,267 in the financial statements , the revenue of stamp duty had been under stated by Rs.2,254,633.	It has been informed that after receiving of accurate billed income, action will be taken to bring to account the difference between the estimate income and actual income.	Accurate income should be identified and brought to accounts.
(e) The decrease in stocks had been amounted to Rs.1,527,677 according to the financial statements, the increase of stocks had been shown as Rs.558,969 in the cash flow statements prepared relevant to the year under review.	Has been accepted	Accurate financial statements should be presented.
(f) Adjustments for the audit fees payable relevant to the year under review had not been carried out.	I accepted. It has been informed that action will be taken to rectify by the Journal entries.	Accounts should be presented on accrued basis according to the accounting policy.

## 1.6.2 Un reconciled Control Accounts or Reports

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Un reconciliation of Rs.2,892,462 was existed between 06 balances of account balances presented in financial statements and the balance according to the schedules presented with financial statements.	It has been informed that, it was brought to account the license fees in closed business places in industrial tax revenue and inclusion of the water over charges in the water sales revenue.	Accounts and utility documents should be compared and financial statements should be submitted accurately.

## 1.6.3 Lack of Evidence for Audit

<b>Subject</b>	<b>Amount Rs.</b>	<b>Evidence not made available for audit</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Plant	2,731,115	} Survey Reports Inventory	Deficiencies are being corrected.	Documents should be maintained up to date.
Fixing	15,715,888			
Machineries	18,928,266			
Equipment				
Computers	1,455,876			
Furniture	7,500,932			
	----- <b>46,332,077</b> =====			

## 1.7 Non-compliances

### 1.7.1 Non-compliances with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions are given below.

<b>Reference to laws, rules and regulations</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<b>(a) Provisions of Rules and Ordinance</b>			
(i) Employee Trust Fund No.46 of 1980	Contributions of 03 per cent which should be sent to the Employee Trust Fund relevant to the salaries paid to the casual and substitute employees of the Sabha from December 2019, had not been paid by the Sabha.	It has been informed that action will be taken	Action should be taken in accordance the relevant Act.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 11,789,264 as at 31 December 2023 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.6,624,736.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

According to the information presented, the information on estimated revenue, billed revenue, collected revenue and revenue in arrears relevant to the year under review and the preceding year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Rates and Taxes	858,400	607,190	807,650	408,850	681,900	165,000	165,000	-
Rents	20,554,415	18,281,261	18,918,650	1,980,844	18,560,707	17,329,003	16,574,036	2,618,233
License fees	1,147,560	348,787	458,487	220,600	1,169,100	1,386,323	1,056,023	330,300
Other Income	4,412,260	4,409,484	4,258,623	643,629	4,820,020	3,485,248	2,992,480	492,768
<b>Total</b>	<b>26,972,635</b>	<b>23,646,722</b>	<b>24,443,410</b>	<b>3,253,923</b>	<b>25,231,727</b>	<b>22,365,574</b>	<b>20,787,539</b>	<b>3,441,301</b>

#### 2.2.2 Performance on Collecting Revenue

Observations regarding the performance in collecting revenue of the Sabha are given below.

Audit Observation	Comment of the Sabha	Recommendation
(a) Rents		
(i) Action had not been taken to settle the rent of meat stalls total value amounted to Rs.1,350,308 outstanding from 11 meat stalls from the period of 12-20 years as at 31 December 2023.	It has been informed that necessary actions are being taken.	Action should be taken to settle.
(ii) Value of Rs.93,990 of 05 balances of lease rents of fish stalls and weekly fair outstanding from a period more than 10 years, had not been settled.	Action is being taken to recover the arrears.	Action should be taken to settle.
(iii) There are 40 trade stalls owned by the Lankapura Pradeshiya Sabha and 09 trade stalls out of that were remained idle in the year under review.	Due to non-offering of lessees for leasing of relevant trade stalls.	Action should be taken to utilize assets.

(iv) Even though rent fees amounting to Rs.799,540 for 39 trade stalls has been billed in the year under review, valuation of rents for that purpose had not been carried out.	Request has been made from the Valuation Department for valuation of trade stalls.	Action should be taken to obtain value of valuation
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(b) License Fees

Action had not been taken to recover the revenue in arrears of Rs.408,550 from 489 institutions which were functioned in the area without obtaining trade licenses, industrial licenses and business licenses as at 31 December 2023.	Action will be taken to recover the revenue in arrears.	Revenue in arrears should be recovered.
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3. **Operating Review**

3.1 **Management Inefficiencies**

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

**Audit Observation**

**Comment of the Sabha**

**Recommendation**

(a) **Action Plan**

Nineteen duties which should be fulfilled by the Sabha according to the annual budget had not been included in the Annual Action Plan and only 07 duties had been fulfilled in the year under review out of the 22 duties mentioned in the Annual Action Plan.	As non-availability of a development officer for fulfill the duties in the post of Community Development Officer, expected targets could not be achieved.	Action should be taken to achieve the expected targets.
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(b) **Non-obtaining of expected benefits**

Even though ,a sum of Rs.9,392,385 has been spent for the construction of 03 electronic libraries in the Sabha area and equipment valued at Rs.2,302,032 had been received thereon , it was unable to commence the expected activities even at the end of the year under review.	Unable to commence due to un availability of officers with knowledge and relevant security guards to be engaged.	Action should be taken to utilize assets.
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### 3.2 Uneconomic Transactions

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The cost incurred for earning Rs. 1,499,018 as revenue during the year under review from the 03 water projects implemented by the Council was Rs. 2,002,005 (excluding depreciation expenses) and the operating loss for the implementation of these projects in the year under review amounted Rs. 502,987.	It has been informed that water will be provided by the Pradeshiya Sabha to some of the villages where there is a shortage of drinking water in the area and water service will be provided as it is the responsibility of the Pradeshiya Sabha to provide drinking water.	Action should be taken to minimize the operating loss.

### 3.3 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Agreement was signed with a contractor for Rs. 17,761,650 in the year 2021, for the development of Tambala weekly fair belonging to the Pradeshiya Sabha and an advance of Rs. 3,552,328 had been paid. However, a sum of Rs. 1,554,515 had not been settled out of the loss of Rs. 2,711,283 incurred by the Sabha due to non-completion of the relevant construction by the contractor.	It has been informed that an agreement was signed with the relevant contractor for the recovery of the loss and action has been taken to recover a sum amounting to Rs.450,000 from the amount in arrears.	Legal action should be taken for the recovery.

### 3.4 Idle and Underutilized Property, Plant and Equipment

	<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a)	The following assets which were established in the area of authority of the Sabha under various projects without a feasibility study and provided, were remained idle	It has been informed that they are remained idle due to the following reasons.	Before establishment of the assets, the requirement should be identified.

Description of the assets	Value	Idle period	
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	Rs.		
Thalpotha Bus Stand	2,230,568	07 years	Buses not arrived
Rice flour producing Bakery items	541,000	03 years	Not used
Thalpotha weekly fair building	2,377,452	01 years	Business men not arrived
Organic fertilizer producing machine	88,000,000	02 years	Using methodologies of low cost

- (b) The building “Pulathisi Swarna Mandapa” which was constructed by spending a sum of Rs.25,100,072 under the project “Pibidemu Polonnaruwa” and handed over to the Lankapura Pradeshiya Sabha, was remained under utilized in the year under review.
- It had been informed that the building was provided for various common ceremonial activities of the area of authority in several instances without charging money also.
- Action should be taken to utilize.

### 3.5 Procurement Management Audit Observation

A register including procurement decisions relevant to the procurements carried out in the year under review by the Sabha, had not been maintained.

#### Comment of the Sabha

It has been informed that action will be taken to rectify from the year 2024.

#### Recommendation

Procurement register should be maintained.

### 3.6 Human Resource Management Audit Observation

According to the information presented to the audit, there were 13 vacancies in the Sabha as at 31 December in the year 2023, as per the approved and actual cadre information.

#### Comment of the Sabha

Casual staff has been deployed for the duties of the driver's post as there is no sufficient number of drivers to be deployed.

#### Recommendation

Action should be taken to complete vacancies.



**3.7 Management of Vehicles**

**Audit Observation**

**Comment of the Sabha**

**Recommendation**

The Mitsubishi cab vehicle bearing No.53-5059 provided by the Chief Ministry to the Lankapura Pradeshiya Sabha on 28 February 1993 had not been vested in the name of the Sabha.

Reply not provided

Action should be taken to vest.