

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Polonnaruwa 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 Polonnaruwa Pradeshiya Sabha 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 (SLAS). 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 Sri Lanka Public Sector Accounting Standards for Local Authorities 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 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 scepticism 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.

1.5 Report on Other Legal Requirements

The special provisions are included in relation to the following requirements specified in the National Audit Act, No.19 of 2018.

- (a) According to the requirement mentioned in Section 6 (1) (d) iii of the National Audit Act No. 19 of 2018, the financial statements of the Pradeshiya Sabha are consistent with the preceding year.

- (b) The financial statements presented includes 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	Comment of the Sabha	Recommendation
(a) Revenue from court fines amounting to Rs. 35,290,414 receivable for the period from January to November of the year under review had been understated in the accounts and since the revenue for the month of December had not been identified and brought to accounts, the revenue of the year and accounts balance receivable had been understated by the same amount.	Action has been taken to rectify it.	Accounts should be presented accurately.
(b) Revenue from stamp duty and the stamp duty receivable for the year under review had been understated in accounts by a sum of Rs. 8,791,150.	Action will be taken to rectify it.	Accounts should be presented accurately.
(c) Revenue from fixed deposit interests amounting to Rs.384,383 recoverable for the year under review, had not been brought to accounts as revenue of interest receivable.	Action will be taken to rectify it.	Revenue of interest receivable should be presented accurately.
(d) Payment of salaries in arrears amounting to Rs.71,105 as at 31 December of the year under review was omitted from financial statements.	Action will be taken to rectify it.	Accounts should be presented on accrual basis.
(e) The value of supply creditors as at 31 December of the year under review had been computed twice and therefore, the balance had been overstated by a sum of Rs. 201,200.	Action will be taken to rectify it.	Accounts should be presented accurately.

1.6.2 **Unreconciled Control Accounts or Records**

Audit Observation	Comment of the Sabha	Recommendation
The value of 04 items of accounts in the financial statements was not reconciled with the values in the relevant schedules by a sum of Rs. 105,447.	It has been informed that action will be taken to rectify it.	Account books and registers should be reconciled and identified the accurate values.

1.7 **Non- Compliances**

1.7.1 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

Instances of non-compliance with laws, rules, regulations and management decisions are given below.

	Reference to laws, rules, regulations and management decisions	Non-compliance	Comment of the Sabha	Recommendation
(a)	Public Administration Circulars			
	Paragraph 3.1 of Public Administration Circular No.30/2016 of 29 December 2016	The consumption of fuel must be re-tested after a period of 12 months from each fuel test or after running a distance of 26,000 km or after carrying out a major repair to the engine, whichever occurs first. Nevertheless, action had not been taken accordingly in relation to 05 vehicles of the Sabha.	Action has been taken to test the consumption of fuel from this year.	Action should be taken as per the circular instructions.
(b)	Treasury Circulars			
	Treasury Circular No. 2019/14 of 19 November 2019 of North Central Province			
	Paragraph 04	A copy of the report of board of survey had not been submitted to the Auditor General before 15 February 2024 after completing the relevant activities of board of survey by 31 December 2023.	It has been informed that action will be taken to submit the report without delay.	Action should be taken as per the circular.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the expenditure in excess of the revenue of the Sabha amounted to Rs..2,719,241 for the year ended 31 December 2023 as against the revenue exceeding the expenditure for the preceding year amounting to Rs.3,504,601.

2.2 Revenue Administration

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

According to the information made available by the Secretary, particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	2023				2022			
	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	1,469,842	2,167,668	2,645,906	1,288,958	1,321,500	1,545,544	873,133	1,767,196
Rents	5,970,935	3,844,449	3,660,616	1,303,333	3,433,710	4,596,668	3,771,718	1,119,500
License Fees	269,250	375,063	360,813	46,250	377,000	385,800	353,800	32,000
Other Revenue	75,086,430	39,238,000	71,762,246	12,817,319	72,314,860	29,686,466	16,649,151	45,341,565
Total	82,796,457	45,625,180	78,429,581	15,455,860	77,447,070	36,214,478	21,647,802	48,260,261

2.2.2 Performance in Collecting Revenue

The observations on the performance in collecting revenue of the Sabha is given below.

Audit observation	Comment of the Sabha	Recommendation
(a) Rates and Taxes		
(i) Even though rates should be assessed once in 05 years, rates for the year 2023 had also been recovered as per the assessment of the year 2012 while the revenue in arrears as at the end of the year under review amounted to Rs. 1,288,958.	Mobile services and other programmes have been organized to recover the revenue of rates in arrears and the revenue of rates of the current year.	Action should be taken to collect the due revenue.
(ii) Even though 02 Grama Niladhari Divisions had been identified as developed areas and published it in the gazette on 05 January 2023, rates	Information has been forwarded to the Department of Valuation and action is being	Rates should be recovered from developed areas.

could not be recovered due to the failure in obtaining the assessment report of property. taken to publish in the Gazette after receiving the approval.

(b) Rents

The revenue in arrears from trade stalls and fines amounted to Rs. 581,771 as at 31 December of the year under review. Legal action will be taken against the payment defaulters. Revenue in arrears should be settled without delay.

(c) License Fees

The revenue in arrears from trade licenses, industry taxes and business taxes amounted to Rs. 947,460 as at 31 December of the year under review. It has been informed that action is being taken to recover the taxes. Revenue should be duly recovered.

(d) Other Revenue

The revenue in arrears of garbage fee amounted to Rs. 640,000 as at 31 December of the year under review and there was a delay in taking action regarding the revenue in arrears. Action will be taken to eliminate the relevant balances from registers after receiving approval to write off the revenue in arrears. Action should be taken to settle it.

3. Operating Review

3.1 Execution of Duties assigned by the Act

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
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Action Plan

Twenty five (25) functions to be performed by the Sabha as per the annual budget, had not been included in the Annual Action Plan.	It has been informed that in future, annual action plan will be prepared in accordance with the budget activities.	Provision should be made by the budget to perform the functions included in the action plan.
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3.2 Assets Management

Audit observation	Comment of the Sabha	Recommendation
Without identifying the requirement properly, the Sevagama Public Market complex has been constructed in the year 2022 at a cost of Rs. 19,269,077 under the provision of Regional Development Assistance Project in a manner to maintain as an individual business unit. Nevertheless, it remained idle as there is no one to award tenders despite the invitation for tenders.	It will be leased out in sections in the year 2024.	Action should be taken to utilize assets.

3.3 Human Resource Management

Audit observation	Comment of the Sabha	Recommendation
(a) There were 36 vacancies in the approved cadre of the Pradeshiya Sabha as at 31 December 2023.	Commissioner of Local Government has been informed of this matter.	Action should be taken to fill the vacancies.
(b) It was observed that 23 officers in the staff of the Polonnaruwa Pradeshiya Sabha were serving continuously in the same station for more than a period of five years without being transferred.	Transfers of the officers and employees in the Combined Services are implemented annually by the Public Service Commission while other transfers are departmental transfers and it should be done by the Department of Local Government.	Transfers should be duly implemented.