

Lunugamwehera Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lunugamwehera Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the Income and Expenditure Account, statement of changes in net assets, Cash Flow statement for the year then ended and notes to the financial statements including material accounting policy information 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 provisions of the National Audit Act No. 19 of 2018, 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 financial statements give a true and fair view of the financial position of the Lunugamwehera Pradeshiya Sabha as at 31 December 2023, 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 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, 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 include 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 except the audit matter of 1.6.1 (d) described in this report 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) To be billed stamp duty income of Rs.1,266,500 and fixed deposit interest income of Rs.275,874 had not been under-accounted.	That stamp duty will be billed as per schedule in the year 2024, and interest will be fixed.	Action should be taken to accurately identify and accounted for Income.
(b) Creditors' provision was not made for Rs.869,602 payable to the Local Government Service Pension Contributory Fund.	In the year 2024, creditor provisions will be made.	Action should be taken to accurately identify and accounted for Payable expenses.
(c) The capital expenditure of Rs.715,875 spent for the construction of the tube well in the solid waste management centre was not accounted under land and buildings but was accounted under machines and Equipment.	That will be corrected in the year 2024.	Action should be taken to accurately identify and accounted to expenditure
(d) As at 31st December 2021, the balance of the accumulated fund account maintained in the general ledger was more Rs.411,213 and the financial statements had been prepared for that amount and also in the year of under review the financial statements were prepared without correcting the same.	This error has occurred during the preparation of the ledger in the year 2021.	The balance of the accumulated funds account should be corrected and accounted.
(e) The 22 inventory items with a total value of Rs.354,009 were accounted under wood and equipment and the Wilbarrow of Rs.9,800 was accounted for twice under Timber and Equipment and under Industrial Equipment.	That will be corrected in the preparation of accounts in the year 2024.	The value of the assets must be correctly classified and accounted.

- (f) The expenses of Rs.139,026 incurred for the year 2024 were not accounted as prepayments but were accounted as an expense of the year under review. That will be corrected in the year 2024. Expenses related to the year should be correctly identified and accounted
- (g) Interest income of Rs.138,189 due on 03 fixed deposits was not accounted for. That will be corrected in the year 2024. Interest income related to the year should be correctly identified and accounted.

1.7 Non- Compliances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987	As at the end of the year of under review, the Council had not proceeded to charged assessment tax from the developed areas identified in 2015.	In the year 2024, assessment tax of Rs.16,554 was collected from one domain declared as developed areas.	Action should be done according to the provisions of the Act.
(b) Section 132(a) of the Pradeshiya Sabha Act No. 15 of 1987	Although the prior written approval of the Minister shall be obtained for expenses not exceeding one thousand rupees in total in one year in relation to any religious, charitable, cultural, health, recreational, or educational work, However in relation to Rs.73,885 spent for conducting the Geeta Rasaswada program, the same approval was not obtained.	That such defects will not occur in the future.	Action should be done according to the provisions of the Act.
(c) 260(1) Finance Regulations of the Democratic Socialist Republic of Sri Lanka	In the year under review, while making payments for 3 different tasks, cheques of Rs. 176,360 were written in the name of the council secretary, and money was taken without making payments to the designated contributors.	That such defects will not occur in the future.	Action should be taken according to the Finance Regulations.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2023 amounted to Rs.3,823,315 as against the excess of recurrent expenditure over revenue amounted to Rs.910,950 in the preceding year.

2.2 Revenue Administration

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

Source of Revenue	2023				2022			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
Assessments and taxes	1,054,000	709,120	736,720	127,160	530,000	692,800	635,120	154,760
Rent	8,971,000	4,004,296	4,618,578	772,014	6,045,000	3,377,183	3,462,646	1,386,296
License fees	1,685,700	1,833,050	2,364,900	863,490	1,348,200	1,720,235	1,790,685	1,395,340
Other income	3,686,500	1,239,604	1,653,867	214,345	2,110,000	1,682,430	1,170,193	628,608
Total	15,397,200	7,786,070	9,374,065	1,977,009	10,033,200	7,472,648	7,058,644	3,565,004

2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the council	Recommendation
(a)	Although Rs.127,160 in business tax due from 94 business units as of 31st December of the year of under review should have been collected by 31st March 2023 as per Gazette Notification No. 2305 dated 4th November 2022, also the same was not done and therefore the deficit related to previous years was Rs. 117,800 in the outstanding balance.	That Rs.5,400 has been recovered and a case has been filed for Rs.6,360 and that the rest of the deficit is being recovered.	Arrears income should be recovered promptly.
(b)	As at 31st December of the year of under review, action had not been taken in accordance with Section 159(1) of the Pradeshiya Sabha Act to collect Rs. 104,200 of shop rent due from 14 shop rooms owned by the council.	Rs.94,000 have been recovered and the rest of the deficit is being recovered.	Arrears income should be recovered promptly.

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| (c) | Due to providing vehicles and machinery belonging to the council on a credit basis without charging money in the previous years and in the year of under review. Therefore balance receivable at December 31 of the year under review was Rs.218,700. | Rs.34,850 have been recovered and judicial action will be taken to recover the deficit of Rs.129,650 in the year 2021. | Arrears income should be recovered promptly. |
| (d) | As at 31st December of the year of under review, the amount of Rs.345,778 had not been charged for the trade right leasing rent due in relation to 4 properties owned by the council. | Rs.30,000 has been recovered and judicial action has been taken to recover the remaining dues. | Arrears income should be recovered promptly. |
| (e) | As at 31st December of the year under review, the trade license fees of Rs.120,000 due from 135 business units had not been recovered, and the council had not proceeded to file a case in terms of Section 122(2) of the Pradeshiya Sabha Act. | Rs.3,000 has been recovered and a case has been filed for Rs.7,500 and the rest of the deficit is being recovered. | Arrears income should be recovered promptly. |
| (f) | The fees were not charged from the billboards displayed in the council area and as at 31st December of the year under review, the amount of Rs.743,490 dues from 26 institutions had not been recovered. | Rs.52,000 has been recovered and judicial action has been taken to recover Rs.460,090 | Arrears income should be recovered promptly. |

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 Observation	Comments of the council	Recommendation
(a) Three commercial building plans that had been approved for construction and giving covering approval for the amount of square meters built in excess and process chargers and also certificate fees amounting to Rs.202,967 and Rs.10,000 respectively were not recovered.	The builders were informed to submit and get the revised plans approved.	Amended plans should be approved after charging the prescribed fees.

- (b) The 11 commercial buildings those construction work had not been completed beyond the validity period of plans related to extension and fees of Rs.55,000 and two approved building plans and construction work related to construction of a boundary wall were completed, even though they were not inspected and compliance certificates were not issued and Rs.15,000 fees had not been charged.
- The period of 06 plans has been extended so far and the concerned people have been informed to extend the period of other 05 plans.
- Validity extension fees and compliance certification fees should be collected.

3.2 Operational Inefficiencies

Audit Observation	Comments of the council	Recommendation
The council had lost an income of Rs.105,600 that could have been earned due to non-granting of environmental licences for 24 business units identified in the business survey of 2023.	Environmental protection licences will be issued.	Businesses should be encouraged to obtain environmental licences.

3.3 Assets Management

Audit Observation	Comments of the council	Recommendation
(a) The legal ownership of 87 lands owned by the council had not been transferred to the council.	Action has been taken for land acquisition activities.	Legal ownership of land should be confirmed.
(b) The council had not taken steps to utilize after repair or dispose of four vehicles that were taken out of service in the past years.	A special survey panel has been appointed to receive recommendations and further action will be taken after receiving the recommendations.	Action should be taken to assets repaired or disposed

3.4 Delays in Project Activities or Capital Work

Audit Observation	Comments of the council	Recommendation
Three development proposals with a total value of Rs.1,300,000 included in the 2023 budget had not been implemented in the year under review.	That project could not be implemented as there was not enough money in the council's accounts.	Development proposals earmarked in the budget should be implemented.

3.5 Procurement Management

Audit Observation	Comments of the council	Recommendation
As per Government Procurement Guidelines 2006 and Pradeshiya Sabha (Finance and Administration) Rules 177 of 1988, purchases of goods and services totalling Rs.572,355 were made on 13 occasions without calling for quotations.	That such defects will not be made in the future.	Procurement should be done in accordance with the provisions and rules of the Guidelines Code.

3.6 Defects in Contract Administration

Audit Observation	Comments of the council	Recommendation
(a) In making payments of Rs.80,104 for the construction work of the industry to restore the culvert at the three-way junction by recovered for the work of crushing and thickening the road with gravel soil near the Akuressa house of and Late charges of and Rs.10,623 had not been calculated and charged.	Rs. 27,857 will be recovered from the overpaid amount, and the late fee will be recovered from the retention amount.	Overpayments and late fees must be recovered.
(b) Under the work subject 1.2 of the payment report relating to the culvert processing industry on the second lane on the right side of the road in front of Muthumala Mill, an additional amount of Rs.67,089 had been included for filling and crushing the culvert with soil and for compacting the road for 30 meters with soil and also late charges of Rs.2,164 had not been collected.	Overpayments of Rs.23,333 and late charges of Rs.2,164 will be recovered.	Overpayments and late fees must be recovered.
(c) In relation to 02 industries that had been implemented by the council, there were Rs. 73,088 extra bills due to the fact that bills were prepared for payment without using correct prices for the work of filling and compacting soil on both sides of the culvert and developing the road.	Overpaid Rs.20,818 will be recovered.	Overpayments and late fees must be recovered.

3.6 Human Resources Management

Audit Observation	Comments of the council	Recommendation
By the end of the year under review, 14 excess related to 06 positions had not been formalized since the approved carder and actual working staff of the council were 45 and 55 respectively.	An application was made for approval of surplus posts but approval was not received.	Efforts should be made to formalize staff redundancies.