

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Uhana Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial operations, 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 the provisions of the National Audit Act No. 19 of 2018 and the 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 accompanying financial statements give a true and fair view of the financial position of the Uhana 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**

My opinion is qualified 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, 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 Audit Scope (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 2 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The value of fixed assets in the year under review had been overstated by Rs.1,587,100 due to double accounting of the value of 34 solar lights.	Measures will be taken to correct in the processing of future accounts.	It should be properly accounted for.
(b) The income of the year under review had been overstated due to accounting of Rs. 562,275 court fines related to the period from January 2021 to December 2022 as an income of the year under review.	- do -	- do -
(c) The value of Salary Reimbursement as at 31 December of the year under review amounting to Rs.2,566,320 had not been accounted for.	- do -	- do -
(d) The value of Rs.2,398,106 incurred for the construction of the vehicle service center constructed under the Regional Development Assistance Project (PT 1 – 2nd 50%) had not been capitalized.	- do -	- do -
(e) The receivables and payables as at 31 December of the year under review relevant to the road concreting project from near house No. 26/106 to house 26/116 had been	Measures will be taken to correct in the due course when preparing the accounts in due course.	It should be properly accounted for.

understated by Rs.500,000 under industrial debtors and industrial creditors.

- (f) An amount of industrial debtors Rs.1,001,348 in relation to Rural Road Development Program had been over-accounted. - do - - do -

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.1,473,330 between the balances of Industry Debtors and Industry Creditors Schedules and Financial Statements as at 31 December of the year under review.	Measures will be taken to update the documents.	Measures should be taken to identify and correct the discrepancies.

### 1.6.3 Documentary Evidence not made available for Audit

Subject	Amount Rs.	Evidence not made available for Audit	Comment of the Council	Recommendation
(a) Prepaid (advance)	1,017,183	(i) Balance confirmations (ii) Documents and schedules	Unable to find information to confirm these values.	Necessary further action should be taken to settle the balance.
(b) Employee security	7,590	(i) Employee Guarantee Register (ii) Schedule	- do -	- do -

## 1.7 Non Compliance

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

Instances of non-compliance with laws, rules, regulations and Management Decisions etc. observed in sample audit tests are described below.

Reference to laws, rules, regulations and management decisions	Non Compliance	Comment of the Council	Recommendation
(a) Pradeshiya Sabha (Financial and Administrative) Rules of 1988			
(i) Rule 5(12)	Even though arrangements should have been made to	Arrangements will be made to obtain guarantees	Financial and administrative

2.		obtain sufficient guarantees from the officers responsible for cash and storage, no arrangements had been made accordingly.	from the officers as per the relevant circulars.	rules should be followed.
	(ii) Rule 33, 34 and 35	No enough attention of the council had been drawn to prepare lists of assessment tax defaulters and confiscation of properties. If no prompt action is taken to recover the arrears, the balance arrears may increase further.	Measures had been taken to issue quarterly notices collect arrears and measures are being taken for prohibition of properties.	- do -
	(iii) Rule 218	Even though measures should be taken to inspect all the lands and buildings owned by the council once every year, it had not been done accordingly.	Measures will be taken to identify and assess the lands and buildings annually.	- do -

## **Financial Review**

### **2.1 Financial Result**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs. 1,559,586 as against the excess of expenditure over recurrent revenue amounted to Rs. 1,834,389 in the preceding year.

### **2.2 Revenue Administration**

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

According to the information presented by the chairman, the details 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	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
i. Rates and Taxes	₹. 3,244,785	₹. 2,108,779	₹. 1,901,676	₹. 4,492,369	₹. 2,544,784	₹. 2,420,432	₹. 2,224,608	₹. 4,285,266
ii. Rent Income	13,476,200	5,225,212	5,056,778	332,308	12,974,968	4,506,650	4,615,140	163,874
iii. License Fees	1,451,000	519,500	519,500	-	1,601,000	492,250	492,250	-
iv. Other revenue	2,507,000	3,586,267	3,586,267	-	950,000	819,770	819,770	-
<b>Total</b>	<b>20,678,985</b>	<b>11,439,758</b>	<b>11,064,221</b>	<b>4,824,677</b>	<b>18,070,752</b>	<b>8,239,102</b>	<b>8,151,768</b>	<b>4,449,140</b>

## 2.2.2 Revenue Collection Performance

### Audit Observation

The value of arrears of assessed tax to be recovered as at 31 December of the year under review was Rs.4,492,369, which was more than four times the value of the assessed value of Rs.1,047,926 for the year.

### Comment of the Council

Quarterly notices had been issued and the arrears had been collected.

### Recommendation

The arrears of revenue should be recovered expeditiously in terms of the provisions of the Act.

## 3. Operational Review

### 3.1 Performance of functions assigned by the Act

#### Audit Observation

By-laws had not been enacted by identifying the facts that by-laws should be enacted under the section 126 of the Praadeshiya Sabhas Act ,and only 05 by-laws had been enacted as at 31 December 2023.

#### Comment of the Council

By-laws to be imposed will be identified, prepared and approved in the future.

#### Recommendation

By-laws should be enacted and legalized.

### 3.2 Management Inefficiencies

#### Audit Observation

- (a) There is no solid waste management unit owned by the Pradeshiya Sabha ,and about 1,200 tons of waste collected at a cost of Rs.968,397 had been transported to the waste management center owned by the

#### Comment of the Council

Arrangements had been made to reserve a land from the Divisional Secretary and measures will be taken to establish a in waste

#### Recommendation

The attention of the council should be drawn on the establishment of a

Ampara Municipal Council during the year under review. Thus, the attention of the council should be focused on the establishment of a separate waste management center for Pradeshiya sabha.	management center in the near future.	waste management center.
--	---------------------------------------	--------------------------

- |   |  |   |
|---|--|---|
| (b) An advance amounting to Rs.1,314,000 had been given to the contractor by the council out of the Rs.1,789,907 received in the year 2016 for the construction of the solid waste management center under the financial allocation of the Central Environment Authority. Even though this construction work had been abandoned due to public opposition, no measures had been taken by the council to recover the advance amount from the contractor for more than 07 years. | The project had been justified and the contractor had been informed to give the rest of the advance to the council except for the initial expenses incurred in connection with the work. | Arrangements should be made to complete the relevant project or get a refund. |
|---|--|---|

### 3.3 Operational Inefficiencies

#### **Audit Observation**

Assessment tax had been levied based on the assessment in the year 2007 without making arrangements for timely assessment and collection of taxes on properties belonging to administrative limits of Pradeshiya Sabha.

#### **Comment of the Council**

The assessment had been done in October 2023 for the year 2024, and assessment tax for the year 2024 will be levied as per the new assessment.

#### **Recommendation**

Arrangements should be made to assess the assessment tax amount and levied on time.

### 3.4 Assets Management

#### **Audit Observation**

- (a) The value of 44 cemeteries and 05 playgrounds belonging to the council had not been recognized and accounted for.
- (b) Actions had not taken to repair and re-use 10 vehicles in the council's possession or to properly dispose of vehicles that cannot be repaired.
- (c) Necessary measures had not been taken to transfer the ownership of 14 vehicles under the care of the council in favor of the council.

#### **Comment of the Council**

- Arrangements are being taken to take over these in favour of the council and measures will be taken to assess and take into account after they had been taken over.
- The Deputy Chief Secretary (Finance) had been notified to auction these vehicles.
- Measures are being taken to transfer the ownership of 02 vehicles and M.T.A.06 form could not be filled for the rest of the vehicles so that the acquisition process had stopped.

#### **Recommendation**

- Value must be recognized and accounted for.
- Appropriate action should be taken promptly for disposal.
- Arrangements should be made to transfer ownership of the vehicles in charge of the council in favor of the council.

### 3.5 Human Resource Management

#### **Audit Observation**

19 posts in the council remained vacant by the end of the year under review.

#### **Comment of the Council**

The relevant institutions have been informed about the vacancies available in the council. Currently, 05 casual workers have been used for work.

#### **Recommendation**

Necessary action should be taken to fill up the vacancies in the cadre.

## 4. Accountability and Good Governance

### 4.1 Internal Audit

#### **Audit Observation**

No adequate recommendations had been made implemented for improvement of corporate operational processes upgrade performance covering all the functions of the council through the audit in terms of the Section 40 of the National Audit Act No. 19 of 2018 and 133(1) of the Financial Regulations.

#### **Comment of the Council**

Measures will be taken to prepare adequate recommendations in due course.

#### **Recommendation**

The provisions of the National Audit Act should be followed.

### 4.2 Audit committee

#### **Audit Observation**

Audit and Management Committees had not been established and committee meetings had not been held by the Council during the year under review in terms of the Circular No. DMA/01-2019 dated 12 January 2019 of Management Audit Department on Internal Audit Guidelines.

#### **Comment of the Council**

No answers provided.

#### **Recommendation**

Measures should be taken to initiate procedures and hold meetings for the Audit and Management Committee.

### 4.3 Sustainable Development Goals

#### **Audit Observation**

The council had not taken sufficient measures to collect the necessary data and thereby make the necessary financial allocations for achieving the sustainable development goals and objectives in terms of the Sustainable Development Act No. 19 of 2017.

#### **Comment of the Council**

A four-year development plan is prepared based on sustainable development goals and objectives, and the identified projects will be implemented from the council fund and other development projects, accordingly.

#### **Recommendation**

According to the circular, the council should take actions to achieving the sustainable development goals and objectives.