

## **Elpitiya Pradeshiya Sabha – 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Elpitiya Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations, 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the 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 accompanying financial statements give a true and fair view of the financial position of the Elpitiya 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**

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 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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a)	Pension contribution expenditure of Rs.87,970 and capital expenditure of Rs.460,424 were not accounted.	Will be rectified in the future.	Should be accounted correctly.
(b)	The closing stock balance of Ambana sub-office was under-stated in the accounts by Rs.131,890.	- do -	- do -
(c)	Due to debiting the interest income of Rs.362,264 due on 31 December 2022 to the excess deficit account, the value of fixed deposits had been reduced by that amount.	- do -	- do -
(d)	Ayurvedic stock purchases of Rs.3,879,545 had been accounted as receipt of grant.	- do -	- do -

- (e) Although the pre received assessment tax income was Rs.112,485, it was accounted as Rs.104,903. - do - - do -
- (f) The electricity stock balance was overstated by Rs.33,120 as at the last day of the year 2022. - do - - do -

### 1.6.2 Non reconciled control account or Records

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs.23,231,115 between the balances related to 05 accounting items shown in the financial statements and the balances shown in the relevant utility registers.	It will be settled quickly.	Action should be taken to rectify after comparing differences.

### 1.6.3 Lack of documentary evidence for Audit

Subject	Comment of the Sabha	Recommendation
Due to non-submission of the necessary detailed schedules for 02 accounting items aggregating to Rs.759,000 could not be examine satisfactorily during the audit.	Arrangements should be made to settle.	Evidence should be submitted confirming the Account Balances.

## 1.7 Non-compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Sabha	Recommendation
(a) <b>In the Pradeshiya Sabha Act No. 15 of 1987 Section 24</b>	According to the Act, 425 roads with a length of 393.36 km owned by the Sabha had not been published by a gazette notification.	A gazette notification will be published after preparation the road inventory.	The road should be published by way of a gazette notification.

- (b) 476 and 477 of the Provincial Council Finance and Administration Rules of 1988
- An annual survey was not conducted for 20 vehicles owned by the Sabha.
- That survey will be done for the year 2024.
- A vehicles, survey should be done annually.
- (c) Guideline 3.7.1 of the Code of Guidelines for Local Authorities on Issuance of Environmental Protection Permits for Small Scale Polluting Industries / Processes
- Environmental Protection Permits had a maximum validity period of 03 years, and there were 25 establishments whose validity period had expired.
- The letters are sending to the owners of the relevant institutions.
- Environmental protection permits should be renewed.

## 2. Financial Review

### 2.1 Financial results

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. 15,458,720 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 38,869,036 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	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.
Rates and Taxes	7,466,500	5,195,094	4,870,825	19,117,607	5,946,500	5,105,210	4,166,434	18,793,338
Rent	3,460,000	3,587,670	5,258,828	2,354,064	3,109,200	4,798,850	5,628,046	4,025,222
License Fees	852,000	2,157,390	2,070,940	100,000	716,500	1,209,894	1,236,244	13,550
Other Income	13,843,500	13,037,176	13,156,216	804,837	7,193,000	12,902,697	12,994,657	923,877
	25,622,000	23,977,330	25,356,809	22,376,508	16,965,200	24,016,651	24,025,381	23,755,987

## 2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Sabha	Recommendation
(a) The outstanding income was Rs.23,755,987 as at 01 January of the year under review, and at the end of the year, the total outstanding income was Rs.22,376,508. At the end of the year, there were 1702 balances of Rs.5,856,963, in the arrears of assessment tax and 16 balances of Rs.2,176,592 in the arrears of shop rents, which had existed for more than 03 years.	This existing deficit will also be settled by taking necessary measures to collect the deficit income and that the amount of Rs. 2,176,382 has been directed to be deducted from the billed shops while they were closed.	Action should be taken to collect arrears of income.
(b) 15 shops owned by the Pradeshiya Sabha, which did not pay rent arrears and did not conduct business, were sealed in March 2022, and due to non-repair of those shops, the relevant buildings were being destroyed.	Being an old building, it is dilapidated beyond repair.	Action should be taken to maximize the use of Sabha property.
(c) Since two buildings with 19 shops belonging to the Sabha are in poor condition, the government Valuation department had informed that the assessment value would be reported after the repair work, however by not repairing those shops, the Sabha had lost the income that could have been earned by renting the shops.	The Sabha has approved to remove the building completely and build a super market with modern facilities to suit the current market.	New Shops stalls should be built to increase council income.
(d) Stamp fees due from the Chief Secretary of the Provincial Council and other authorities were Rs.6,996,965 and court fines were Rs.998,084.	The arrangements are made to recover outstanding balances.	Action should be taken to collect arrears of income.

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Although two Weekly Fair were constructed at a cost of Rs.757,552, they remained inactive in the Sabha's area of authority for 6 years.	Have failed because traders are not presented.	Sabha should make the best use of their property.

### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) The Sabha did not have the deeds to confirm the ownership of 56 lands owned by the Sabha, and no arrangements were made to settle the ownership of those lands.	The arrangements are being made to settle the ownership of the lands owned by the Sabha.	The ownership of the lands owned by the Sabha should be settled.
(b) 06 vehicles with a value of Rs.11,131,501 and 02 vehicles whose value could not be identified remained idle for a period between 04 months and 08 years.	It has not been possible to carry out the disposal activities.	Arrangements should be made to utilize the idle assets.

### 3.3 Deficiencies in contract administration

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) In relation to Jayanthi Mawatha and Palandagoda road development work item No. 04, in removing the old road using machines, since the same machine can also be used to cut the elevated places on both sides of the road mentioned in work item No. 02, for that purpose. Rs.135,717 had been overpaid due to the use of price ratio in relation to labor tillage.	The recommendations of the committee appointed by the Southern Province, Local Government Commissioner related to prices are to be dealt with in the future.	Appropriate rates should be used.
(b) Rs.259,885 was overpaid for side drains due to non-use of prescribed rates.	In the future, action will be taken according to the recommendations of the committee appointed by the Southern Province, Local Government Commissioner regarding prices.	Appropriate rates should be used.

### 3.4 Human Resources Management

Audit Observation	Comment of the Sabha	Recommendation
The staff loan balance of Rs.364,678 was due from 07 officers who left the service, retired, ceased service and whose information could not be found as at 31 December 2023.	The recovery from guarantors is in progress.	Action should be taken to recover the staff Loans.