

Badalkumbura Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Badalkumbura Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position at 31 December 2023 and 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 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 financial statements give a true and fair view of the financial position of the Badalkumbura 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, 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 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 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is Non 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 Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
-----	-----	-----
(a) Cash and cash equivalents as on December 31 of the year under review were Rs.3,526,237, but it was overstated by Rs.3,332,949 as Rs.6,859,186 in the statement of financial position.	It will be corrected in preparing the financial statements for the year 2024.	Correct balances should be included in the financial statements.

- | | | |
|--|---|---|
| (b) Values of Weheragoda and Meegaha yaya cemetery lands owned by the Pradeshiya Sabha were not assessed and accounted for. | All land values will be assessed and accounted for in the year 2024. | All assets owned by the Sabha should be identified and accounted for. |
| (c) The value of Rs.529,891 incurred for procuring three-phase electricity for Satipola Multipurpose Building, was not capitalized. | It will be corrected in preparing the financial statements for the year 2024. | Correct balances should be included in the financial statements. |
| (d) Capital expenditure of Rs.2,918,412 incurred for the acquisition and improvement of property in the year 2022 was not accounted for, under property, plant and equipment in the statement of financial position. | It will be corrected in preparing the financial statements for the year 2024. | All expenses should be accurately identified and accounted for. |
| (e) The value of assets such as tree cutter, plastic water tank and tablet computer (Lenovo) received as donations to the Pradeshiya Sabha during the year under review was not accounted for. | Fixed assets are included in the documents | The value of all assets received by the Sabha should be identified and accounted for. |
| (e) The value of 74 books received as donations to libraries during the year under review was not accounted for. | It will be assessed and accounted for in the future | The value of library books should be recognized and accounted for. |
| (g) The stamp duty income due on December 31 of the year under review was Rs.6,327,295 but it was understated by Rs.231,830 as Rs.6,095,465 in the financial statements. | It will be corrected in preparing the financial statements for the year 2024. | Correct balances should be included in the financial statements. |
| (h) Interest income of Rs.66,879 due for fixed deposits related to the year under review was not recognized and accounted for. | It will be corrected in preparing the financial statements for the year 2024. | All incomes of the Sabha should be identified and accounted for. |
| (e) In the year under review, the salary and allowance expenditure of the health service sector was over-stated by Rs.196,033. | It will be corrected in preparing the financial statements for the year 2024. | Correct balances should be included in the financial statements. |

(a) Capital assistance of Rs.991,057 received for welfare services during the year under review, and the capital expenditure incurred thereon was not disclosed in the statement of financial operations.	It will be corrected in preparing the financial statements for the year 2024.	Correct balances should be included in the financial statements.
(o) A case was filed by an external party against the Pradeshiya Sabha but it was not disclosed in the financial statements.	It will be corrected in preparing the financial statements for the year 2024.	Matters affecting the going concern of the entity should be disclosed in the financial statements.
(o) Stock valuation policy as on 31st December of the year under review was not disclosed in the financial statements.	The inventory valuation policy will be disclosed in the preparation of financial statements in the year 2024.	Accounting policies should be disclosed in the financial statements.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
-----	-----	-----
According to the deposit registry, the security deposit was Rs. 1,759,638, but it was shown as Rs. 1,831,688, so there was a difference of Rs. 72,050.	It will be corrected in preparing the financial statements for the year 2024.	Account balances on financial statements and schedules should be reconciled.

1.6.3 Documentary Evidences not made available for Audit.

Audit Observation	Comments of the Sabha	Recommendation
-----	-----	-----
Due to non-submission of valuation reports, title deeds and updated fixed asset register related to 04 asset subjects with total value of Rs.457,771,158, it was not possible to satisfactorily verify during the audit.	In the year 2024, a professional valuation will be conducted and the values will be accurately documented and the fixed asset register will be updated.	Evidence supporting the account balances shown in the financial statements should be submitted.

1.7 Non- Compliances

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

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

are as follows

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
-----	-----	-----	-----
<p>(a) No. 15 of 1987 Pradeshiya Sabha Act</p> <p>(i) Section 19 (xii)</p>	<p>In leasing out 14 shops belonging to the Pradeshiya Sabha, the approval of the subject minister was not obtained.</p>	<p>Necessary actions to get the Minister's approval have been started</p>	<p>Regarding the long-term lease of the property of the Sabha, the approval of the minister in charge should be obtained.</p>
<p>(ii) Section 24(1).</p>	<p>No action had been taken to gazette 254 roads included in the road inventory and to update the road inventory.</p>	<p>This work will be done immediately in the future</p>	<p>The road inventory should be kept up to date and the roads included in it should be published in the gazette.</p>
<p>(b) Section 83(1) of the Urban Development Authority Act No. 41 of 1978;</p>	<p>Building construction in the Sabha area was not regulated since 116 building plans that had been approved from 2018 to 2020, were not inspected and issued compliance certificates.</p>	<p>These matters will be corrected in the future.</p>	<p>Construction in the Sabha area should be regulated.</p>

(c) Paragraph 03 of the letter of the Secretary, Ministry of Finance and Planning, Law and Peace, Education, Local Government, Land, Cultural Affairs, Social Welfare and Rural Infrastructure Development and Construction No. 9/B/4 dated December 05, 2014

A cab was repaired without the prior approval of the Secretary of the Ministry and a sum of Rs.867,000 was paid for it.

That, the relevant payments have been made with the money received from the Sri Lanka Insurance Corporation.

Circular instructions should be followed.

(d) Circular dated 17th August, 2010 of the Secretary, Ministry of Power and Energy.

According to the street lights register, although 525 street lights were installed, there was no contract with the Ceylon Electricity Board regarding the street lighting.

Letters have been sent seeking advice from the Commissioner of Local Government and future action will be taken according to the instructions given.

It should be complied with the Circular

2. **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 of the current year amounted to Rs.11,397,832 as compared with the excess of revenue over recurrent expenditure amounted to Rs.2,409,424 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 Secretary of the Sabha 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
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	3,250,274	3,404,891	2,341,343	1,063,549	1,150,200	911,857	718,998	192,859
(ii) Rent	3,949,600	3,876,782	3,707,307	169,475	3,055,200	3,695,759	3,478,159	217,600
(iii) License Fees	730,200	444,150	444,150	-	736,000	498,975	498,975	-
(iv) Other revenue	22,250,000	17,891,606	7,322,119	10,569,487	10,762,500	6,839,562	3,742,510	3,097,052
Total	30,180,074	25,617,429	13,814,919	11,802,511	15,703,900	11,946,153	8,438,642	3,507,511

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

Audit Observation

Comments of the Management

Recommendation

Rates and Taxes

(a) Out of the assessment tax revenue of Rs.2,797,756 billed in the year under review, Rs.1,001,196 or 36 percent had not been recovered as on 31st December.

That, arrears are being collected.

All income related to the year should be recovered.

(b) Out of the outstanding assessment tax revenue of Rs.506,825 at the beginning of the year under review, Rs.272,441 or 54 percent was not recovered during the year.

That, necessary measures are being taken to recover the arrears.

The arrears should be recovered immediately.

(c) The rental income of Rs.19,014 due for the lease of Badalkumbura weekly fair for the previous year was not collected in the year under review.	That, necessary measures are being taken to recover the arrears.	The arrears should be recovered immediately.
--	--	--

Rent

(a) Out of Rs.1,278,600 billed in the year under review, Rs.58,300 had not been recovered as on December 31.	That, necessary measures are being taken to recover the arrears.	The arrears should be recovered immediately.
--	--	--

(b) Out Of the outstanding shop stall rental income of Rs.307,400 at the beginning of the year under review, Rs.253,400 or 82 percent was not recovered during the year.	This arrears amount is the rental income that was not charged during the Covid epidemic, and it has been submitted to the Honourable Governor to written off from the income.	The arrears should be recovered immediately.
--	---	--

License Fees

A survey was not conducted covering all business entities regarding the entities that should be subject to trade licenses, business taxes and industry taxes.	These activities will be corrected in relation to the year 2024.	Businesses within the Sabha area of authority should be regulated.
---	--	--

Environment Permits

According to section 2.5.2 of the guidelines for local authorities issued by the Central Environment Authority on the issuance of environmental protection permits for small-scale polluting industrial processes, a separate account was not maintained for crediting the money charged as environmental protection permit fee and field inspection fee.	That, necessary arrangements are being made for opening the bank account.	Action should be taken as per the guidelines.
---	---	---

Other

- | | | |
|--|--|--|
| (a) Arrears business tax of Rs.36,000 due for the period 2020-2023 related to 03 telephone transmission towers installed in the Sabha area, had not been collected by December 31, 2023. | The relevant institutions have been informed from time to time to pay the arrears. | Necessary Actions should be taken to recover the arrears of revenue immediately. |
| (b) Outstanding water charges of Rs.284,016 due as on December 31 of the year under review from 306 water consumers of 2 water schemes were not collected. | That, necessary steps will be taken to recover the arrears immediately | Arrears should be recovered promptly. |
| (c) Arrears machine rental income of Rs.205,470 due for the period 2017/2020 had not been recovered by 31 December of the year under review. | That, necessary Actions will be taken to recover the arrears immediately | Arrears should be recovered promptly. |
| (d) Court fines amounting to Rs.1,814,635 and stamp duty amounting to Rs.6,095,465 had not been collected by December 31 of the year under review. | That, necessary Actions will be taken to recover the arrears immediately | Arrears should be recovered promptly. |

3. Operational Review**3.1 Fulfillment of functions assigned by the Act**

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

Environmental Protection Permits

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
(a) No survey was conducted to identify the industries for which environmental protection licenses should be obtained.	It has been planned to conduct surveys in the future.	Existing industries in the Sabha area of authority should be regulated.
(b) The environmental protection licenses of 11 industries whose validity period of environmental protection licenses had expired had not been renewed, and 27 business organizations that paid business tax and industry tax in the year 2023 had not obtained environmental protection licenses.	The necessary steps will be taken to complete these activities promptly.	Existing industries in the Sabha area of authority should be regulated.

3.2 Management inefficiencies

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
(a) 547 library books costing Rs. 79,588 which were issued in 05 libraries, were not get return by December 31 of the year under review.	An advisory committee will be appointed and the necessary further action will be taken with this regard.	Arrangements should be made to collect the issued books.
(b) Deficiencies of 10 feet aluminum ladder and 2000 liter plastic water tank were identified in board of survey in 2016 and 2017, but even as on 31st December of the year under review, the officials had not identified and taken necessary action against them.	The Action will be taken to investigate this.	The responsible parties should be identified and the losses recovered.

3.3 Operational inefficiencies

Audit Observation	Comments of the Management	Recommendation
----- Nakkala Weekly Fair and 5 stalls and Higurukaduwa weekly fair had not been leased out during the year under review.	----- It was procured three times in order to lease for the year 2023 but no applicant came forward.	----- Revenue should be collected from properties owned by the Sabha.

3.4 Asset management

Audit Observation	Comments of the Management	Recommendation
----- (a) The survey work of 78 lands had not been done and the legal rights of 95 lands had not been taken over.	----- The necessary activities for surveying the land are being carried out.	----- The legal ownership of assets owned by the Sabha should be taken over.
(b) There was a difference of 1519 kilometers between the milometer as per the running chart and the vehicle's milometer in the cab owned by the Sabha on May 12, 2023, but a formal investigation in this regard had not been conducted even on November 30, 2023.	----- That the Assistant Local Government Commissioner has been informed to conduct an investigation in this regard.	----- The responsible parties should be identified and relevant actions should be taken.
(c) In relation to the period 2017 - 2023, the Pradeshiya Sabha had incurred an expenditure of Rs.210,760 to take over the land with the Kadianthalawa Tiruvana mineral deposits and to obtain mining licenses, but as of November 30 of the year under review, the relevant land had not been acquired and the environmental protection license and mining license related to Thiruvana mining had not been obtained.	----- By now, applications have been made for obtaining the environmental permit and mining permit.	----- The money owned by the Sabha should be used in the most efficient and effective manner.

<p>(d) The 4-wheeler tractor received from the Badalkumbura Agricultural Development Sabha in the year 2017 remained idle as of December 31 of the year under review.</p>	<p>In the future, this tractor will be provided to the students studying technology at Nisshanka National School for practical training.</p>	<p>The assets owned by the Sabha should be used in the most efficient and effective manner.</p>
---	--	---

3.5 Contract administration

Audit Observation	Comments of the Management	Recommendation
<p>The building plan for the weekly market and the multi-purpose building, which was constructed at a cost of Rs.54,654,409 based on the provisions of the Local Development Support Project (LDSP), had not been approved by November 30 2023, At the end of the year under review, although only 06 months had passed since the construction of the multi-purpose building, there were cracks in several places in the slab and there were cracks in 20 places in the walls of the building with a length of 46.13 meters.</p>	<p>Due to shortcomings in the plan, the reference of planning committee approval has been delayed. It has now been forwarded to the Urban Development Authority for approval, and the technical committee has confirmed that the internal cracks are caused by the explosive temperature.</p>	<p>The approval of the building plan committee should be obtained for the building plans, and the construction work should be formally supervised.</p>

3.6 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>As of December 31 of the year under review, there were vacancies of 06 officers in 04 positions and surplus of 06 officers in 03 positions.</p>	<p>That requests have been made for obtaining the approval of the Department of Management Services and this situation has arisen through the new recruitments and annual transfers made in the past years.</p>	<p>Staff vacancies should be filled and posts of surplus staff should be approved.</p>

4. Accountability and good governance

4.1 Internal Audit

Audit Observation

According to Section 40 of the National Audit Act No. 19 of 2018, no internal audit of the Sabha was conducted in relation to the year under review.

Comments of the Management

The internal audit plan will be followed in the year 2024.

Recommendation

The internal audit work of the sabha should be conducted continuously.

4.2 Budgetary Control

Audit Observation

In comparison of the estimated income and expenditure according to the budget prepared by the Pradeshiya Sabha for the year under review, with the actual income and expenditure of the year, there were variations from 6 percent to 148 percent in 08 income subjects and 12 percent to 67 percent in 7 expenditure subjects. Thus, the budget was not used as an effective control tool.

Comments of the Management

The steps will be taken to properly prepare the budget in the future.

Recommendation

Annual budget estimates should be prepared more realistically, and action should be taken to achieve those targets.