

## **Padaviya Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of Padaviya Pradeshiya Sabha for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023 and the statement of Comprehensive Income, statement of changes in net Assets / Equity and 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 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 reported 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 Padaviya Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its 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**

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 Sri Lanka Public Sector Accounting Standard 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

#### 1.4 Audit Scope (Auditor's Responsibility 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 to identify and assess the risk 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Pradeshiya Sabha;
- Whether the Pradeshiya Sabha 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 are 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 include 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 related to the preparation of financial statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Even though the billing of stamp duty in the year under review had been Rs.828,333, it had been understated as Rs.733,000 in the statement of comprehensive income.	Accepted	The accurate value should be accounted.
(b) Although the revenue from stamp duty receivable on 31 December 2023 had been Rs.1,344,833, it had been understated as Rs.749,500 in the statement of assets and liabilities.	-Do-	-Do-
(c) Even though the revenue from tractor had been Rs.694,000 as at 31 December 2023, it had been understated as Rs.378,500 in the statement of comprehensive income.	-Do-	-Do-
(d) As a sum of Rs.290,000 received for transportation of purchased fishing boats from Mattakkuliya to the Pradeshiya Sabha had been accounted twice as recurrent grants and capital grants in the statement of comprehensive income during the year under review, receipts of capital grants had been overstated by Rs.290,000.	-Do-	-Do-
(e) Even though the billing of trade licenses had been Rs.215,200 in the year under review, it had been understated as Rs.180,450 in the statement of comprehensive income.	The difference was due to deregistration of closed down businesses.	The accurate value should be accounted.

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| (f) | Although the billing of industrial tax during the year under review had been Rs.157,200, it was understated as Rs.86,000 in the statement of comprehensive income.     | -Do- | -Do- |
| (g) | Although the billing of business tax in the year under review had been Rs.1,571,000, it had been understated as Rs.1,414,530 in the statement of comprehensive income. | -Do- | -Do- |

### 1.6.2 Unreconciled Control Accounts or Records

#### Audit Observation

Even though the value in relation to 03 expenditure items according to the statement of comprehensive income for the year under review had been Rs.1,219,429, the value had been Rs.960,167 according to the schedule, and therefore, there had been a difference of Rs.259,262.

#### Comments of the Sabha

Accepted.

#### Recommendation

Schedules should be compared with the corresponding reports.

### 1.6.3 Lack of Written Evidence for Audit

Subject	Amount	Audit Evidence not Provided	Comments of the Sabha	Recommendation
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	Rs.			
License Fees Receivable	48,000	(i) Detailed Schedules (ii) Time Analysis	Schedules with time analysis will be submitted in the future.	Corroborating written evidence must be submitted.
Industrial tax receivable	44,400	-Do-	-Do-	-Do-
Business tax receivable	597,400	-Do-	-Do-	-Do-

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the expenditure, which had exceeded the revenue of the Pradeshiya Sabha for the year ended 31 December 2023 had been Rs.6,023,366 and corresponding to that, the expenditure, which had exceeded the revenue in the previous year had been Rs.5,023,369.

### 2.2 Revenue Administration

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

According to the information submitted by the Secretary of the Sabha, information related to the estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year are mentioned below.

Revenue Source	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	2,000,200	1,710,630	1,673,830	641,800	1,655,600	1,495,450	1,533,900	605,000
(ii) Rents	11,881,400	4,744,337	4,737,687	455,250	6,391,400	3,899,085	3,465,685	448,600
(iii) License Charges	5,108,800	1,558,349	1,724,991	48,000	3,367,500	1,864,352	1,692,960	214,642
(iv) Other Revenue	16,893,600	9,302,156	8,139,874	2,539,777	8,742,500	7,822,602	7,697,834	1,377,495
	<u>35,884,000</u>	<u>17,315,472</u>	<u>16,276,382</u>	<u>3,684,827</u>	<u>20,157,000</u>	<u>15,081,489</u>	<u>14,390,379</u>	<u>2,645,737</u>

#### 2.2.2 Performance in the Collection of Revenue

The observations in relation to the performance in the collection of revenue in the Pradeshiya Sabha are mentioned below.

Audit Observation	Comments of the Sabha	Recommendation
(a) <b>Rates and Taxes</b> Business tax amounting to Rs.597,400 and industrial tax amounting to Rs.44,400 had not been collected even by 31 December in the year under review.	Action will be taken to recover these arrears in the year 2024.	Action should be taken to recover.

**(b) Rents**

The rent amounting to Rs.426,250 to be recovered for renting out the JCB machine owned by the Pradeshiya Sabha in the years of 2022 and 2023, had not been collected.

Action will be taken to collect these arrears in the year 2024.

Action should be taken to recover.

**(c) License Charges**

Trade license fees to be received for the year under review amounting to Rs.48,000 had not been recovered.

-Do-

Action should be taken to recover.

**(d) Other Revenue**

- (i) Water charges amounting to Rs.117,626 and water connection charges amounting to Rs.25,000 had not been collected even by 31 December of the year under review.

It is expected to recover these arrears in the year 2024.

-Do-

- (ii) Court fines, which should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December 2023 amounting to Rs.1,044,197 and stamp duty amounting to Rs.742,500 had not been collected and the revenue from stamp duty of the years of 2022 and 2023 had not been confirmed.

Court fines amounting to Rs.600,454 and stamp duty amounting to Rs.7,000 have been received In February 2024, and the remaining money will be collected in the near future.

-Do-

**3. Operational Review****3.1 Performance of Functions Assigned by the Act**

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, 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 and all amenities within such area, are mentioned below.

**Audit Observation**

Even though by-laws could have been enacted under Section 126 of the Pradeshiya Sabhas Act to fulfill 30 major matters, By-laws had not been enacted for those matters even by 31 December 2023.

**Comments of the Sabha**

The By-laws prepared and published by the Department of Local Government will be adopted.

**Recommendation**

Action should be taken to enact the By-laws.

### 3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) A survey had not been conducted in the year 2023 to identify the institutions located in the limits of the Pradeshiya Sabha, from which environmental licenses should be obtained.	Accepted.	An annual survey should be conducted and thereafter, fees should be collected.
(b) Even though a sum of Rs. 2,262,620 should have been paid for the fuel obtained by the Pradeshiya Sabha during the 4 months from September to December 2022, arrangements had not been made to pay the amount.	Action will be taken to pay it in instalments in the near future.	Action should be taken to pay even in instalments.
(c) The Sabha had not paid the audit fees amounting to Rs. 319,185 to be paid to the National Audit Office for carrying out audit activities of the Pradeshiya Sabha in the years of 2021 and 2022.	The payment will be completed as soon as possible.	Action should be taken to pay.
(d) Action had not been taken in relation to the debtor balance amounting to Rs.2,490,958 receivable to the Pradeshiya Sabha from the Department of Local Government, which had been existed for 02 to 08 years, and the creditor balance of Rs.5,519,377.	A detailed report of these balances, which have been existed since 2015, will be prepared and action will be taken to settle.	Arrangements should be made to settle.
(e) Although Rs.5,834,450 had been spent in the year under review, and 34 fishing boats had been purchased for a revenue generation project, 30 of those fishing boats remained idle in the premises of the Pradeshiya Sabha without being used for the generation of revenue.	Since the fishermen had not agreed to give a security deposit for the boats, the provide of the boats was delayed and, the administrative committee will take a decision and take appropriate action in the future.	Arrangements should be made to award contracts and to generate revenue.

### 3.3 Asset Management

Audit Observation	Comments of the Sabha	Recommendation
It was unable to dispose of a decayed cab, a motorcycle, a hand tractor and a concrete mixer, which had been recommended for disposal by the Board of Survey during the verification of goods for the year 2023 as it was unable to obtain the recommendation of a mechanical engineer.	A recommendation of the Mechanical Engineer will be obtained and action will be taken in the near future to dispose of it.	Necessary measures should be taken to dispose of it.