

Pannala Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pannala Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, and statement of financial operations, statement of changes of equity, 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 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 financial statements give a true and fair view of the financial position of the Pannala 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 express qualified opinion in respect of financial statements based 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 Standards, 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 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 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 Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) The stamp duty revenue in the year under review amounted to Rs.70,320,914 had been overstated.	Actions will be taken to correct by the final financial statements 2024.	It should be accurately accounted for.
(b) Court fines of Rs.2,720,747 received in January of the year under review had not been accounted as income for the year.	-do-	-do-
(c) The construction value of the Makandura Children's Park's safety fence had been overstated by Rs.626,595 in the financial statements.	-do-	-do-
(d) The total value of the construction of the storage room at the car wash and the sanding of the Makandura Children's Park had been understated by Rs.393,909.	Actions will be taken to correct by the final financial statements 2024.	It should be accurately accounted for.
(e) Audit fees paid in the year under review for the year 2022 and 2021 amounting to Rs.393,300 had been credited to the accumulated fund.	-do-	-do-

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Secretary	Recommendation
There was a difference of Rs.9,772,355 between the totals of the ledger accounts and schedules relating to 17 accounting items as at 31 December of the year under review,.	Actions will be taken to correct in the preparation of final financial statements 2024.	The reasons for the differences should be identified, checked and corrected.

1.6.3 Lack of Written Evidence for Audit

Audit Observation	Amount Rs.	Audit Evidences Unavailable	Comments of the Secretary	Recommendation
Refundable Deposits	59,622,077	Age Analysis	Actions will be taken to correct in the preparation of final financial statements 2024.	Required information for audit should be submitted.

1.7 Non-compliance

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

The Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to Laws, Rules, Regulations, Management Decisions etc.	Non-compliance	Comments of the Secretary	Recommendation
---	-----------------------	----------------------------------	-----------------------

(a) Pradeshiya Sabha Act No. 15 of 1987

Section 134	Development areas where Sabha provides services had not been not declared and rates were not levied	Necessary activities are being carried out to identify developed village areas in the new rates zone.	Actions should be taken to identify Developed village areas and measures should be taken to increase the revenue of rates.
-------------	---	---	--

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulations 371 There were unsettled advances of Rs.119,374 since 1988. Actions will be taken to settle the balances. Actions should be taken in terms of Financial Regulations.
- (ii) Financial Regulations 571 (b) Actions had not been taken to release lapsed deposits valued at Rs. 20,032,475 or to credit unclaimed deposits to the government revenue. Actions will be taken to settle. -do-
- (c) Pradeshiya Sabha Financial and Administrative Rules
- (i) Rule 59 A list of projects had not been prepared and submitted by 31 March for the signature of the Secretary of the Sabha. Actions will be taken to correct in the future Actions should be taken to correct.
- (ii) Rule 218 Although an annual survey of land and buildings should be conducted by an appointed board, it had not been so done. Actions will be taken to appoint a Board of survey to conduct a survey of land and buildings A survey of land and buildings should be done in time.
- (d) Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016 The fuel consumption test of 27 vehicles owned by the Sabha had not been carried out. That a fuel check has been planned to be done. Actions should be taken as per the circular.

(e) Local Government Circulars

- | | | | | |
|-------|--|--|--|--|
| (i) | Circular No. 2018/e-local government dated 01 and 19 July 2018 | Citizens were not facilitated to submit applications and make payments online. | The preliminary steps have been taken and the necessary further actions are being taken. | Actions should be taken in terms of circulars. |
| (ii) | Section 1.2 ii of Circular No. 2010/02 and dated 30 July 2010 | Although a divisional transfer system should be implemented once in 02 years for officers who find it difficult to do so, it had not been so done. | Actions will be taken to change the duties in the future. | -do- |
| (iii) | Circular No. 03/2015 and dated 02/11/2015 | The Register of Street Lights had not been maintained in an updated manner. | Agree with the observation | Actions should be taken as per circulars |

2. Financial Review

2.1 Financial Results

As per the financial statements presented, revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2023 was Rs. 77,462,461 and as correspondence revenue that exceeded the recurrent expenditure of the preceding year was Rs. 96,940,370.

2.2 Financial Control

Audit Observation	Comments of the Secretary	Recommendation
-------------------	---------------------------	----------------

The compensation value of the salary receivable to the Sabha from the year 2017 to the year 2020, amounted to Rs. 9,922,230 had remained furthermore.	Actions should be taken to resolve in the future.	Actions should be taken to settle the balances.
---	---	---

2.3 Revenue Administration

2.3.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

As per the information presented by the Secretary, the details about the estimated revenue, billed revenue, collected revenue and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	Year 2023				Year 2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December (from Billed Revenue)	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December (from Billed Revenue)
	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.
Rates and Taxes	15,263	12,431	10,597	1,833	15,362	13,932	14,257	2,562
Rents	33,841	30,527	27,927	2,600	32,469	30,154	26,730	3,674
License Fees	1,551	1,274	1,274	-	1,551	956	996	-
Other Income	26,286	17,741	20,618	-	20,564	16,674	17,021	-
Total	76,941	61,973	60,416	4,433	69,946	61,716	59,004	6,236

2.3.2 Performance of Revenue Collection

Audit Observation	Comments of the Secretary	Recommendation
(a) There was an arrears of rates balance of Rs 2,480,960 and an arrears of acreage tax balance of Rs 122,914 as at 31 December of the year under review.	Actions will be taken to recover arrears of revenue	Arrears of revenue should be recovered.
(b) Seven assets with minimum bid value of Rs.114,987 had not been leased out in the year under review.	Although these 07 assets were tendered in the year 2023, the it was not leased out.	Actions should be taken to generate income from assets owned by the Sabha.
(c) A shop rent of Rs 1,197,265 was receivable as at 31 December of the year under review.	Actions will be taken to recover arrears.	Arrears of revenue should be recovered.
(d) Court fines receivable from February to December 2023 was Rs 29,537,748 and stamp duty receivable from July 2021 was Rs 124,320,914 from the Chief Secretary of the Provincial Council and other authorities.	Agree with the observation.	Actions should be taken to recover the arrears of balances promptly.
(e) According to the Circular No. 2019/02 of the North Western Local Government Commissioner dated 20 January 2019, although the shop rent should be assessed once every 03 years, a number of 136 shops leased by the Sabha had not been assessed and lease rent had not been collected.	Actions will be taken to collect revenue.	Actions should be taken in terms of the circular.

3. Operational Review

3.1 Performance of functions assigned by the Act

Audit Observation	Comments of the Secretary	Recommendation
(a) Although by-laws could have been enacted to fulfill 30 main matters Under Section 126 of the Local Council Act, by-laws had not been enacted for 20 matters by 31 December 2023 .	Actions will be taken to enact by-laws.	Actions should be taken to identify opportunities to generate revenue and enact by-laws.
(b) Even though capital expenditure of Rs. 591,000 and recurrent expenditure of Rs. 27,404,068 had been incurred for solid waste management during the year under review, the income received from the sale of waste was Rs. 908,275.	Although there is a huge demand for organic fertilizers, this income has decreased due to the decrease in demand.	Actions should be taken to manage waste properly and to increase income.

3.2 Management Inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) The value of 06 accounts receivable balances as at 31 December of the year under review was Rs.255,002,969 .	Actions will be taken to recover receivable.	The amounts receivable should be collected.
(b) The total value of 04 accounts payable balances as at 31 December of the year under review was Rs.265,725,299 .	Actions will be taken to settle payable balances..	Actions should be taken to settle payables.
(c) There was an employee loan balance of Rs.583,310 receivable from 12 transferred employees as at 31 December 2023.	Actions will be taken to recover arrears.	Actions should be taken to settle employee loans.

3.3 Assets Management

Audit Observation	Comments of the Secretary	Recommendation
(a) Two buildings valued at Rs.8,632,166 had not been recorded in Makandura Sub-office fixed asset registers.	This will be entered in registers.	Fixed assets should be recorded .
(b) Fixed asset records for land and buildings, furniture and equipment, machinery and plants and vehicles owned by the Sabha had not been updated and maintained.	Agree.	Fixed asset registers should be maintained in an updated manner.
(c) Necessary actions to take over 50 cemeteries maintained by the Sabha had not been done.	Actions will be taken to correct the deficiencies shown by the audit.	Actions should be taken to take over cemeteries.

3.4 Human Resources Management

Audit Observation	Comments of the Secretary	Recommendation
The approved staff of the Sabha was 176 and there were 49 vacancies.	Required actions are being taken to fill the vacancies.	The staff requirement should be reviewed periodically.

3.5 Vehicle Systems Management

Audit Observation	Comments of the Secretary	Recommendation
(a) The ownership of the JCB machine, the double cab and the jeep valued at Rs 7,500,000 used by the Sabha had not been registered in the name of the Pradeshiya Sabha.	Necessary actions are being taken.	Registration should be obtained in the name of the Sabha.
(b) The excavator valued at Rs 1,500,000 and the Nissan fire engine valued at Rs 5,000,000 had remained idle.	Agree with the audit.	The vehicles owned by the council should be repaired and put to use without allowing them to deteriorate or actions should be taken to dispose of vehicles that cannot be done so.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Secretary	Recommendation
Even though the Sabha had prepared an Action Plan that included the tasks to be performed in relation to the year under review, out of 45 specific activities identified in it, the progress of 06 was between 30-75 per cent.	Arrangements will be made according to the Action Plan of the year 2024 .	Measures should be taken as per the Action Plan.

4.2 Budgetary Control

Audit Observation	Comments of the Secretary	Recommendation
There was a variation between 13 and 42 per cent between estimated and actual income in 05 income items and between 30 and 81 per cent between estimated and actual expenditure in 08 expenditure items.	Necessary steps will be taken to minimize the deficiencies shown by the audit.	Estimates should be prepared realistically.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Secretary	Recommendation
Out of 55 performance indicators identified under 14 sustainable development objectives, the progress of achievement of 21 indicators was below 75 per cent until the last day of the year under review.	It is informed that the actions will be taken to implement programmes related to identified sustainability goals.	Actions should be taken to achieve the identified Sustainable Development Goals