

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Udubaddawa 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 in 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 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 Udubaddawa 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 Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) The arrears of loan balance of the Local Credit Development Fund amounted to Rs.245,274 had been overstated in the financial statements.	Actions will be taken to correct by final financial statements 2024 .	It should be accurately accounted for.
(b) A sum of Rs.Rs.19,355 had been understated as Industry Creditors as at 31 December of the year under review.	-do-	-do-
(c) The warehouse stock balance as at 31 December 2023 had been understated by Rs.122,007 .	Actions will be taken to correct by final financial statements 2024 .	It should be accurately accounted for.
(d) A number of 18 office equipment valued at Rs.440,550, a number of 52 machines and equipment amounted to Rs 134,775, a number of 43 wooden furniture valued at Rs. 324,350 and a tree cutting machine valued at Rs 48,000 purchased in the year 2022 had not been accounted for under fixed assets as at 31 December 2023.	-do-	-do-

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| (e) | According to library books survey reports as at 31 December of the year under review, the disposed books valued at Rs.14,337 had been included in the library books account.  | -do- | -do- |
| (f) | The rates income of the year under review had been understated by Rs 111,080 in the financial statements.   | -do- | -do- |
| (g) | The value of the Hela Bojun Hall building and toilet system had been understated. by Rs 202,387 .   | -do- | -do- |
| (h) | The expenditure incurred in the year under review, for the development of land and buildings amounting to Rs.1,877,452 had not been capitalized and the value of 04 lands amounting to Rs.195,000 had not been entered in the accounts. | -do- | -do- |
| (i) | The Sabha had 05 cases which were being heard by 31 December of the year under review and actions had not been taken to disclose about it in the financial statements.  | -do- | -do- |

## 1.7 Non-compliance

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

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions are show below.

<b>Reference to Laws, Rules, Regulations, Management Decisions etc.</b>	<b>Non-compliance</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a)	Pradeshiya sabha Act No. 15 of 1987  Section 134	Actions had not been taken to declare the areas developed and serviced by the Sabha as developed village areas.	Agree with the observation. Actions should be taken as per the instructions in the relevant section.

<b>(b)</b>	Financial Regulations of the Democratic Socialist Republic of Sri Lanka	A number of 179 lapsed deposits valued at Rs.4,144,874 had not been credited to government revenue in terms of Regulations.	-do-	Actions should be taken in terms of regulations.
<b>(c)</b>	Sabha Financial and Administrative Rules			
<b>(i)</b>	Rule 33	Although a list of rate defaulters and a warrant of attachment of property shall be prepared by the rates clerk at the end of each quarter and submitted for the signature of the Chairman it had not been so done.	Agree with the observation.	Actions should be taken in terms of the Rule.
<b>(ii)</b>	Rule 218	Although an annual survey of land and buildings should be conducted by an appointed board, it had not been so done.	Agree with the observation.	Actions should be taken in terms of the Rule.
<b>(d)</b>	Public Administration Circular No. 02/2018 dated 24 January 2018.	Actions had not been taken in respect of Sections 03,04, 6.3 and 6.5 of the Circular	-do-	Actions should be taken in terms of the Circular.
<b>(e)</b>	Section 1.2 ii of Department of Local Government circular dated 30 July 2010	Although a divisional transfer system should be implemented once in 02 years for the officers who found it difficult to do so with a subject transfer system, it had not been so done.	-do-	Actions should be taken in terms of the Circular.

## 2. Financial Review

### 2.1 Financial Results

As per the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2023 was Rs.27,529,105 and the correspondence revenue that exceeded the recurrent expenditure of the preceding year was Rs. 19,816,376 .

### 2.2 Revenue Administration

#### 2.2.1 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	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at December 31 (from billed revenue)	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at December 31 (from billed revenue)
	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.
Rates and Taxes	4810	4203	3,770	4,334	3624	2297	1402	4292
Rents	14088	9615	15,024	404	3563	12138	6646	1203
License Fees	1391	860	860	0	1263	874	874	0
Other Income	158389	16197	86,925	86,764	1125141	120233	639	100621
Total	178,678	30,875	106,579	91,502	1,133,591	135,542	9,561	106,116

#### 2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Secretary	Recommendation
(a) The arrears of rate balance was Rs.3,856,189 and the acreage tax was Rs.78,029 as at 31 December of the year under review.	Agree with the observation.	Arrangements should be made to collect arrears of revenue.

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| (b) | Arrears of rent amounting to Rs 388,765, arrears of shop rent amounting to Rs 3,975 of and arrears of mobile stalls rent amounting to Rs.11,700 had to be received as at 31 December of the year under review.  | -do-                        | Arrangements should be made to recover arrears of balances.  |
| (c) | Within the stamp duty balance of Rs.7,952,313 that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review, there were the amount of Rs.7,270,839 related to the year and Rs.681,474 related to the years 2016 and 2021. The stamp duty receivable as at 31 December 2023 was Rs.75,630,224 . | -do-                        | -do-   |
| (d) | Although the properties for which the rates are charged should be assessed every 05 years and the charges should be made based on it, the Sabha had not done so.  | Agree with the observation. | The value should be assessed and based on that the fees should be charged once in 05 years for properties on which assessment charges are levied |

### 3. Operational Review

#### 3.1 Performing of Tasks enacted by the Act.

Audit Observation	Comments of the Secretary	Recommendation
(a) Even though 03 matters had been prepared by-laws under Section 126 of the Pradeshiya Sabha Act and referred to the Department of Local Government in the year 2020, had also not been approved at the end of the year under review.	Agree with the observation.	Actions should be taken in terms of Section 126 of the Act.

(b) Even though capital expenditure of Rs.534,000 and recurrent expenditure of Rs.24,259,371 had been incurred for solid waste management during the year under review the revenue from the sale of garbage had been Rs. 472,934 .	Agree with the observation.	Actions should be taken to manage biodegradable and non-biodegradable waste properly and to develop income generation activities.
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### 3.2 Management Inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) The value of 08 accounts receivable as at 31 December of the year under review was Rs. 91,113,609 .	Agree with the observation.	The balances receivable to the Sabha should be collected promptly.
(b) The total value of 04 accounts balances payable as at 31 December of the year under review was Rs.20,751,241 .	-do-	Balances payable should be settled promptly in a formal manner.
(c) There were irrecoverable loan balances of Rs.369,460 to be received from 03 employees .	Agree with the observation.	Employee loans should be recovered properly

### 3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Secretary	Recommendation
The ambulance owned by the Sabha remained unused for more than 02 years without carrying out any repair .	Agree with the observation.	Actions should be taken to utilize of idle assets.



### 3.4 Assets Management

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a) Due to failure of revaluation of assets in time there were land assets with low values like Rs. 50 and Rs.100 .	Agree with the observation.	The Register of Fixed Asset should be maintained in an updated manner.
(b) A Register of Fixed Asset had not been maintained for timber and equipment and asset registers for vehicles and machinery had not been not updated.	-do-	-do-
(c) The ownership of 02 vehicles, 31 cemeteries and 05 playgrounds which are being used by the Sabha had not been transferred to the Sabha.	-do-	-do-

### 3.5 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a) The excess number of approved staff of the Sabha was 16.	Agree with the observation.	The staff requirement should be periodically reviewed.
(b) A sum of Rs.26,457,889 had been paid as salaries and allowances in the year under review for 19 employees recruited on casual, substitute, contract or daily allowance basis exceeding the approved staff.	-do-	-do-

#### **4. Accountability and Good Governance**

##### **4.1 Annual Action Plan**

###### **Audit Observation**

Even though the Sabha had prepared an Action Plan that included the tasks to be performed in relation to the year under review, the progress of the Action Plan in relation to the year under review had not been evaluated using a rational basis that could measure the specific indicators identified therein.

###### **Comments of the Secretary**

Agree with the observation.

###### **Recommendation**

The progress of the Action Plan for the year under review should be evaluated.

##### **4.2 Budgetary Control**

###### **Audit Observation**

There were variations between 21 to 95 per cent in the estimated and actual income in 05 revenue items and more than 25 per cent between estimated provision and actual expenditure in 06 expenditure objects.

###### **Comments of the Secretary**

Agree with the observation.

###### **Recommendation**

Revenue estimates should be prepared as rationally as possible.

##### **4.3 Sustainable Development Goals**

###### **Audit Observation**

The progress of 04 activities planned to be carried out during the year under review to achieve the Sustainable Development Goals had remained less than 50 per cent.

###### **Comments of the Secretary**

Agree with the observation.

###### **Recommendation**

Sustainable development goals and objectives should be identified and achieved.