

Chilaw pradeshiya sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chilaw pradeshiya sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the 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 provisions in the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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 Chilaw pradeshiya sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 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 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 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.

- 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.
- 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 observation on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Secretary	Recommendation
(a)	04 assets worth Rs.97,800 had not been accounted for as at the last date of the year under review.	Measures will be taken to make corrections through journal entries.	Action should be taken to correct.
(b)	The employee loan account had been understated by Rs.117,000.	do	do
(c)	05 industries whose value was Rs.5,874,430 had not been accounted under fixed assets.	do	do
(d)	Worth of deeds amounting to Rs.1,415,000 given for roads on 11 parceled lands had not been accounted under land and buildings.	do	do

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Secretary	Recommendation
There was a difference of Rs. 20,138,990 in total value between the financial statements and schedules of 05 accounting subjects.	The necessary measures will be taken in the year 2023, to correct it.	Measures should be taken to rectify balances in schedules and account balances.

1.6.3 Suspense Account

Audit Observation	Comments of the Secretary	Recommendation
There was a suspense account with an outstanding debit balance of Rs.62,837 as at 31 December of the year under review.	Measures will be taken to make corrections through journal entries.	Corrections should be made through journal entries.

1.7 Non- Compliances

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

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R.371(c)	05 advances with a total value of Rs.162,801 had not been settled immediately after completion of the respective work.	Measures will be taken to inform in writing that the advance should be settled as soon as the relevant task is completed.	Regulations should be followed.
(ii) Section 571(2)	No measures had been taken regarding 170 deposits worth Rs.4,064,973, which exceeded 02 years, in terms of the Financial regulations.	Further actions will be taken as per the Financial Regulations.	Regulations should be followed.

(b)	Pradeshiya Sabha Act No. 15 of 1987	Sections 129(2) (a) (b) and (f)	The due court fines, stamp duty and lease rents had not been collected properly.	That legal action has been taken to recover stamp duty, court fines and lease rent.	Measures should be taken in terms of the Act.
(c)	Local Government Act 1988 (Finance and Administration) Rules	(i) Rule No. 5(7)	An adequate internal audit system had not been maintained in respect of finance and warehouse operations.	Those internal audit activities are undertaken to cover all scopes of subjects.	Measures should be taken in terms of the rules.
		(ii) Rule No. 217	A register regarding all the lands and buildings used and occupied by the council had not been maintained up-to-date.	Measures will be taken to maintain a register.	Measures should be taken in terms of the rules.
		(iii) Rule No. 218	Even though an inspection regarding all lands and buildings should be conducted by a board inspection once every year, no such inspection had been done.	Measures will be taken to conduct an on-site inspection by an appointed inspection committee in due course.	Measures should be taken in terms of the rules.

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 2023 amounted to Rs.144,347,101 as compared with the excess of revenue over recurrent expenditure amounted to Rs.87,785,753 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 the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue source	2023				2022			
	Estimate d revenue (Rs)	Billed revenue (Rs)	Collected revenue (Rs)	Total arrears as at 31st December (Rs)	Estimated revenue (Rs)	Billed revenue (Rs)	Collected revenue (Rs)	Total arrears as at 31st December (Rs)
	₹'000	₹'000	₹'000	₹'000	₹'000	₹'000	₹'000	₹'000
Rates income	33,534	11,392	11,667	4,667	9,393	11,352	9,331	5,096
Rent	9,625	9,215	9,342	4,388	10,153	11,904	9,755	3,041
License Fees	1,050	1,132	1,132	-	1,380	980	980	360
Other Revenue	<u>12,177</u>	<u>10,202</u>	<u>32,695</u>	<u>128</u>	<u>37,641</u>	<u>11,384</u>	<u>11,263</u>	=
Total	<u>56,386</u>	<u>31,941</u>	<u>54,836</u>	<u>9,188</u>	<u>9,182</u>	<u>35,620</u>	<u>31,329</u>	<u>8,497</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Secretary	Recommendation
(a) Measures had not been taken to recover arrears of rates and tax amounting to Rs.4,352,640, arrears of acreage tax amounting to Rs.314,759 and arrears of rent amounting to Rs.4,388,406 as at 31 December of the year under review.	Measures will be taken to recover in due course.	Arrangements should be made to recover the amount due promptly.
(b) The court fines and stamp duty receivable to the council as at 31 December 2023 was Rs.136,744,037 and Rs.309,467,505 respectively. Out of that, court fines under 01 year were Rs.40,500,000, while over 01 year under 03 was Rs.96,244,037, stamp duty under 01 year was Rs.110,000,000 ,while over 01 year under 03 was Rs.199,467,506.	Measures will be taken to update correctly.	Measures should be taken to charge arrears of court fines and stamp duty expeditiously.
(c) Munneswaram Pilgrims Hall has been leased for a period of 03 years, and the outstanding rental income as at 30 June 2023 was Rs.1,633,764. Even though the lease agreement can be canceled if the rent is not paid as per the section 04 of the lease agreement, it had not been done so.	The necessary legal actions have been taken.	Arrears should be recovered promptly.
(d) The upper floor of the Madampe Environmental Information Center had been leased for 02 years for an amount of Rs.444,000. The outstanding amount by August 2023 was Rs.164,320. No action had been taken to cancel the contract on non-payment of money.	Legal steps have been taken to recover the arrears.	Arrears should be recovered promptly.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) The Community Society Establishment and Formalization Ordinance (Water Supply and Environmental Sanitation) No. 01 of 2013 had been issued, and according to it, the power to monitor, investigate and give advice on the functions, assets and liabilities of the registered Community Society Establishment had been assigned to the local government bodies belonging to the jurisdiction where the said Community Society Establishment is located. No measures had been taken to register 15 Community Society Establishments, and various irregularities and issues of Community Society Establishments had not been monitored.	Only active organizations will be registered.	The Community Society establishments should be monitored.
(b) i. 186 businesses related to 09 industries have not obtained environmental protection licenses during the period from 2019 to 2023, and Necessary steps had not taken by the council in that regard.	Industrialists are getting environmental permits.	Industrialists should be directed to obtain environmental permits.
ii. There were 71 cases where licenses had not been obtained according to the General Terms and Conditions of Environmental Protection Permit for Waste Emission/Disposal issued under Section 21 (1) of the North Western Province Environmental Statue No. 12 of 1990.	Industrialists have been informed that it is essential to obtain licenses in due time.	Actions should be taken according to the statute.
(c) The value of the creditor for the unfulfilled industries in the previous years was Rs. 32,079,400 and 05 industries had not been fulfilled yet by 31 December 2023.	Necessary actions will be taken to complete the industries.	Measures should be taken to perform the industries or to remove from the creditors if they do not perform.

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| (d) | The account balance value that should have been received by the council as at 31 December of the year under review was Rs. 19,726,708 and it includes a balance of Rs. 1,711,608 which exceeded 03 years. | Legal steps have been taken to recover. | Measures should be taken to recover the arrears promptly. |
| (e) | The balance value of accounts payable as at 31 December of the year under review was Rs.107,937,367 ,and out of which more than 03 years was Rs.4,741,372. | Further measures will be taken to settle the balance. | Measures should be taken to settle the creditors promptly. |

3.2 Operational Inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
29 shops had been charged on the old valuation in contrary to the Local Government Commissioner's Circular No. 2019/02 dated 10 January 2019.	Measures had been taken to refer the shops for the new valuation.	Measures should be taken to do a new valuation.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Secretary	Recommendation
No measures had been taken to lease the coconut yield of 40 plots of public land belonging to the pradeshiya sabha.	The lease had not been executed on non-appearance of the lessees.	Measures should be taken to get maximum benefit from the assets of the council.

3.4 Assets Management

Audit Observation	Comments of the Secretary	Recommendation
(a) There were 43 un-acquired lands within the jurisdiction of the council and no action had been taken to take over them.	Necessary steps will be taken to take over all those lands in due course.	Urgent measures should be taken to take over the legal rights of the respective properties.

(b)	The 40 public lands transferred to the council had not been fenced around during land parceling and their security had not been ensured.	Measures are being taken to display the name boards.	Measures should be taken to display the name boards.
(c)	It had not been confirmed that the land of 40 perches owned by the pradeshiya sabha in Turin land in Bulathhandiya, Ratmalagara.	It has been confirmed by the officer in charge of the subject that the land had been given to the council by the subject officer.	It should be confirmed exactly which lands are belong to the council.
(d)	The 1 percent rent that should be given in connection with the division of the land of 9 acres 01 rood 15 perches called Valpotuyaya or Puliyankadwara Kale had not been given and the deed for the common plot had been given.	Measures will be taken to recover the 1% tax to be given to the council from the division of lands will be promptly recovered.	The 1 percent tax should be recovered immediately.
(e)	Approval had been sought in the year 2022 for division of Kahatagahawatta or Korakahawatta, which is 07 Acres 01 Roods 12.4 Perches large in extent, and the approval has not been given since the development conditions have not been fulfilled till now, and measures had not been taken by the council to collect the 1 percent tax.	Measures will be taken to recover the tax amount promptly.	Measures should be taken to recover the 1 percent tax immediately.
(f)	No measures had been taken to obtain the common land plot of 373 perches that should belong to the council after the division and sale of Tittakade Kale (Maitri Uyana) belonging to the jurisdiction of the Pradeshiya Sabhaby deed.	Necessary arrangements will be made to obtain the deed as soon as possible.	Measures should be taken to obtain the deed related to the land belonging to the immediately.

3.5 Delay in projects, activities or capital works

Audit Observation	Comments of the Secretary	Recommendation
The contracted value of 56 industries, which had not started work in the year 2023, was Rs.37,874,138.	Necessary activities to complete the work will be carried out promptly.	The industries planned to be completed in the relevant year should be completed in the same year.

3.6 Procurement Management

Audit Observation	Comments of the Secretary	Recommendation
No measures had been taken to get the favorable situation expected from the procurement process for the council according to the section 1.2 of the Procurement Guidelines by performing the 104 industries by community-based organizations in 2023 in terms of the Public Finance Circular 01/2021.	It had been decided to fulfill the industries by community-based organizations in 2023.	Measures should be taken to provide the relevant industries to contractors at a competitive price following the procurement guidelines.

3.7 Issues in Contract Administration

Audit Observation	Comments of the Secretary	Recommendation
A contract had been reached with Chitta Samadhi Elderly Society for a sum of Rs.199,288 for setting up a net cover at the Selvinwatta playground in Pulyankadwara in the year 2021, and entire sections of the work had been left unfinished according to the estimate.	Necessary measures are carried out to complete the industry.	Measures should be taken to use government funds efficiently and effectively.

3.8 Human Resource Management

Audit Observation	Comments of the Secretary	Recommendation
(a) 17 secondary positions and 37 primary positions had been vacant in the council as at 31 December of the year under review, while 16 secondary positions and 27 primary positions remained redundant.	Requests have been made and we have not received a proper reply.	The number of employees required by the council should be determined and measures should be taken to adjust those employees.
(b) A balance of Rs 335,560 should have been collected from 48 employees who left, suspended the service and transferred in previous years.	Measures are being taken to collect the relevant money from the competent officials.	Measures should be taken to recover the outstanding balance of employee loans.

3.9 Management of Vehicle fleet

Audit Observation	Comments of the Secretary	Recommendation
The loss of Rs.373,630 due to the accidents of a vehicle belonging to the Halawatha local council had not been recovered by 15 November 2023.	Measures had been taken to recover till January 2028.	Actions should be taken to recover.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Secretary	Recommendation
(a) The entire provision of Rs.16,116,000 made in the year under review in relation to 34 objects by the budget estimates had not been used to achieve the related budgeted tasks.	More care will be taken in this regard while implementing future the budget programmes.	Operational activities should be planned in such a way as to achieve the budgeted targets.
(b) Further, the amount spent on 30 objects for which provisions had been made in relation to the reviewed year was less than 50 percent.	More care will be taken in this regard while implementing future budget programs.	Operational activities should be planned in such a way as to achieve the budgeted targets.

4.2 Environmental Issues

Audit Observation	Comments of the Secretary	Recommendation
The council had failed to deal with the unauthorized construction of the canal near the Pambala rail culvert in the Siambalagaswela paddy-field.	Efforts will be made to resolve this issue as soon as possible.	Actions should be taken to solve the issues immediately.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Secretary	Recommendation
The council had identified 10 sustainable development goals and planned to implement 19 activities to achieve those goals in the year 2023. Progress in 13 of those activities was below 49 percent.	Measures will be taken to achieve the sustainable development goals at the most optimal level in due course.	Measures should be taken to reach sustainable development goals and targets.