

Puttalam Pradeshiya Sabha - 2023

1. Financial statement

1.1 Qualified Opinion

The audit of the financial statements of the Puttalam Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the comprehensive income statement, cash flow statement, statement of changes in equity 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 the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Puttalam Pradeshiya Sabha as at 31 December 2023 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report in respect of the financial statements.

My opinion is qualified 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 the 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

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 audit procedure 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 discourses, 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:

The scope of audit has also been widened to examine the following as far as possible and whenever necessary.

- 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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements

- As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year
- The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018 except observations (e) and (f) in paragraph 1.6.1 of this report.

1.6 Audit observations related to the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Secretary	Recommendation
In the year 2022, the income had been over-recorded due to inclusion of Rs.345,000 in membership allowances in the income of the year under review.	Actions should be taken to correct by journal entries.	Actions should be taken to correct by journal entries.

1.7 Non-compliances

1.7.1 Non-compliance with laws, rules, regulations and management decisions

Following are the cases where laws, rules, regulations and management decisions were not complied with.

Reference to laws, rules, regulations etc.	Non-compliance.	Comments of the Secretary	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			

(i)	F.R.104 (1) (3) (4)	In relation to the computer machine of the Mundal library which was misplaced in the year 2022, investigation had not been properly conducted as per F.R.	An investigation is underway.	Actions should be taken to proceed as per the Financial regulations.
(ii)	F.R.571(2)	Regarding 54 deposits worth Rs. 692,356, actions had not been properly taken as per the F.R.	The un-exempted deposits are duly credited to the Council Fund.	Actions should be taken to proceed as per the Financial regulations.
(iii)	F.R. 1647 (a), (b) and (c)	In the event of changes are made regarding the safety of the vehicle's equipment and accessories, no entry had been made in the log book and a complete survey of the equipment had not been carried out. Also, no customer material register had been maintained in relation to the vehicle.	Instructions have been given to update the log books and to conduct a survey and maintain a customer material register.	Actions should be taken to proceed as per the Financial regulations.
(b)	Pradeshiya Sabhas Act No.15 of 1987			
	Section 128	Actions had not been taken to take over the ownership of 142 properties used by the local council to the council.	Legal actions will be taken to transfer in the future.	Actions should be taken to proceed as per the Act.
(c)	Pradeshiya Sabhas 1988 (Finance and Administration) Rules			
	Rule No5(3) and 5(6)	Adequate internal checks had not been carried out regarding the collection of revenue and all revenue and other fees due had not been collected.	Actions will be taken to organize and charge by conducting mobile programs in the future.	Actions should be taken to proceed as per the Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements submitted, the income exceeding the recurrent expenditure of the council for the year ended December 31, 2023 was Rs. 48,731,639 and correspondingly, the income exceeding the recurrent expenditure of the previous year was Rs. 37,503,587.

2.2 Revenue Administration

2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

According to the information presented by the Council, the information about the estimated income, billed income, collected income and outstanding income that had been presented in relation to the reviewed year and the previous year is given below.

Source of income	2023				2022			
	Estimated income	Billed income	Collected income	Total Deficit as on 31 December	Estimated income	Billed income	Collected income	Total Deficit as on 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assessment & Taxes	3,736	3,150	2,254	2,582	3,536	3,267	2,693	2,394
Rents	18,800	18,016	13,348	9,494	17,800	18,874	14,091	6,136
License Charges	2,855	1,997	1,997	-	2,901	1,663	1,663	-
Other incomes	<u>22,995</u>	<u>6,099</u>	<u>6,099</u>	-	<u>3,050</u>	<u>1,802</u>	<u>1,802</u>	-
Total	<u>48,386</u>	<u>29,262</u>	<u>23,698</u>	<u>12,076</u>	<u>27,287</u>	<u>25,606</u>	<u>20,249</u>	<u>8,530</u>

2.2.2 Performance in the Revenue collection

	Audit Observation	Comments of the Secretary	Recommendation
(a)	As on 31 December of the year under review, arrears of assessment Rs.1,682,457, acreage tax Rs.899,317 and rent Rs.9,494,287 had not been recovered.	Actions are taken to collect the arrears.	Arrangements should be made to recover the arrears of income promptly.
(b)	Court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities as on 31 December of the year under review amounted to Rs.26,016,708 and the stamp duty of the year under review were Rs.39,657,497.	Written reminders have been sent to the relevant institutions to collect the due court fines and stamp fees for the year 2022 and 2023.	Actions should be taken to collect the arrears of court fines and stamp duty expeditiously.

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| (c) | The validity period of the environmental permits of 144 industrialists had expired by 30 September 2023 and the council had deprived of an income of Rs.180,000 due to not obtaining new permits. | Actions will be taken to solve the problem. | Arrangements should be made to collect the outstanding income. |
| (d) | .According to the general terms and conditions of the environmental protection permit for the emission/disposal of waste issued under Section 21 (1) of the North West Provincial Environmental statute bearing No. 12 of 1990, it is stated that an application for renewal of the permit should be made one month before the expiry of the permit, but this had been done in that manner. . | Actions will be taken to direct for the renewal of environmental permits. | Actions should be taken to proceed as per General terms and conditions of environmental protection license. |

3. Operational Review

3.1 Management inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) Due to the misplacement of sub-receipt book No. 288 in the custody of an Acting Revenue Inspector, no amount had been charged to the council from its receipts No. 14357 to 14400. And again in December 2022, a book of receipts had been handed over to him and the revenue collection activities had been assigned again without conducting any investigation in respect of missing the last copy of the receipt 12738 and the original copy of the receipt 12739 in that book.	Said officer has been employed in the relevant service to recover the receipt book from him and collect the outstanding amount.	Actions should be taken to proceed as per the Financial regulations.
(b) 221 units of goods related to 43 items had not been documented.	Actions will be taken to document.	Actions should be taken to document goods.
(c) The value of accounts receivable as on 31 December of the year under review was Rs.30,233,353 and the value of balances exceeding 05 years was Rs.21,134,729.	Actions are being taken to recover the arrears.	Prompt actions should be taken to collect arrears promptly.

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| (d) | The balance of accounts payable as on 31 December of the year under review was Rs.10,687,453. | Payments will be made upon investigation. | Prompt actions should be taken to recover the loans from the Creditors |
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3.2 Operational inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) According to the lease agreement for the lease of shops in the new shopping complex, although the agreement could be canceled due to the sub-leasing, the lessee had leased the shops number 03 and 04.	Actions will be taken to cancel the agreement in the future.	Actions should be taken to cancel the agreement
(b) Although the second party acknowledges that the first party has the authority to terminate the relevant agreement in accordance with clause 07 of the lease agreement for the lease of shops on Thoduwawa Road, 07 shops from shop numbers 48 to 54 on Colombo Road from January 2022 and shop numbers 20 to 39 on Thoduwawa Road 20 shops have not paid shop rent since April 2022 and had been running business without entering into a contract.	Actions will be taken accordingly as soon as the instructions are received from the Commissioner of Local Government.	Arrangements should be made to enter into an agreement soon.
(c) The shop at Thoduwa Road bearing No. 17 had been given on 07 October 1998 on rent basis for a period of 04 years and due to a dispute in the year 2002, the lessee had filed a case against the council. The verdict had been given in favour of the lessee due to the absence of a council representative on the relevant hearing date. This tenant is currently staying in the shop without permission and should have paid an amount of Rs.54,021 by 31 December 2021. Again, the council had spent an amount of Rs. 150,000 to file a civil case.	All the documents have been given to the lawyer.	Actions should be taken to recover the outstanding amount of money or take the needful..

3.3 Asset Management

Audit Observation	Comments of the Secretary	Recommendation
There were 138 unclaimed properties within the council's jurisdiction, including weekly markets, libraries, pre-schools, public tube wells, cemeteries and playgrounds. The construction and maintenance work of the properties that were not taken over was being carried out, for which the council had incurred an amount of Rs. 894,106 in the year under review.	Requests have been made to relevant institutions for takeover.	Arrangements should be made to expropriate the assets as soon as possible

3.4 Human Resource Management

Audit Observation	Comments of the Secretary	Recommendation
(a) As of 31 December of the year under review, 06 secondary positions and 10 primary positions had been vacant in the council.	Requests have been made to the relevant institutions to fill the vacancies.	Actions should be taken to identify and approve the number of employees required by the council correctly.
(b) A total balance of Rs.183,756 should have been collected from 14 employees who had left and transferred in previous years.	Reminder letters have been sent to employees in respect of the due money.	Actions should be taken to recover the outstanding balance of employees' loans.

3.5 Vehicle Systems Management

Audit Observation	Comments of the Secretary	Recommendation
A tractor and a trailer owned by the council had been rotting for more than 04 years without being repaired and used or disposed of.	Actions are being taken to implement the decisions of board of survey.	Actions should be taken to dispose.

4. Accountability and good governance

4.1 Annual Action Plan

Audit Observation	Comments of the Secretary	Recommendation
(a) Although an amount of Rs. 658,575 had been spent to fulfill 11 different tasks specified in the action plan, the expected level of completion had not been achieved.	Programs are being carried out by spending the provisions allocated in this year's budget.	According to the action plan, the relevant programs should be implemented and efforts should be made to achieve the level of completion.
(b) In the year under review, although Rs.39,840,000 had been allocated for 121 tasks, 111 tasks worth Rs.38,270,000 had been abandoned without achieving the expected results by 31 December.	Due to the delay in the implementation of the proposals, the relevant tasks had to be abandoned.	According to the action plan, the relevant programs should be implemented and efforts should be made to achieve the level of completion.

4.2 Internal Audit

Audit Observation	Comments of the Secretary	Recommendation
The council's internal audit had focused only on employee loans, annual boards of survey, leave and revenue.	It has been instructed to carry out activities related to the plan this year.	Adequate internal audit should be conducted to cover all activities of the Council.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Secretary	Recommendation
The Council had identified targets for 17 Sustainable Development Goals for the year under review in order to achieve the objectives and goals to be achieved as per the Sustainable Development Agenda 2030 and only 10 goals had been achieved.	There had not been an opportunity to complete the expected programs.	Actions should be taken to achieve the relevant objectives and goals according to the sustainable development agenda.