

Hakmana Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hakmana Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at December 2022 Statement of Financial Operations, statement of Changing Equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 accompanying financial statements give a true and fair view of the financial position of the Hakmana Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

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 Generally accepted Accounting Principles 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 skepticism 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

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

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) The expenditure amounting to Rs.14,725,463 incurred for development and land owned by the Sabha in previous years and in the year under review has not been capitalized.	Action will be taken to correct in future.	Should be accounted correctly.
(b) Receivable Court fines of Rs.120,082 at the end of the year under review had not been accounted .	Action will be taken to correct in future.	Should be accounted correctly.
(c) The provision had not been made under creditors for an amount of Rs.1,082,396 payable to the Local Government Service Pension Contributory Fund at the end of the year under review.	Action will be taken to correct in future.	Should be accounted correctly.
(d) The creditor balance had been overstated by Rs.888,175 during the year under review .	Action will be taken to correct in future.	Should be accounted correctly.

1.6.2 Non reconciled control account or records

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
There was a difference of Rs. 852,179 in between the balances related to 02 accounting items amounting to Rs. 8,298,233 included in the financial statements and the balances shown in the relevant utility registers/schedules.	The action will be taken to rectify.	Action should be taken to rectify the accounts after reconciling the differences in the respective balances.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation -----	Comment of the sabha -----	Recommendation -----
08 accounting items totaling to Rs. 17,985,580 could not be satisfactorily examined during the audit due to non-submission of updated fixed assets register, schedules, documents proving the balance and related bills etc.	The action will be taken regarding this in the future.	Evidence should be submitted confirming the account balances shown in the Financial Statements.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Laws, Rules, Regulation and Management Decisions -----	Non – Compliance -----	Comment of the Sabha -----	Recommendation -----
FR 571 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka	The actions had not been taken in accordance with the Financial Regulation regarding 951 deposit balances of Rs. 9,096,546, which have expired in 02 years belonging to 09 types of deposits.	The action will be taken to take government income in future	Action should be taken according to the Regulation.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December amounted to Rs. 3,828,932 as against with excess of revenue over recurrent expenditure amounted to Rs. 15,031,826 in the preceding year.

2.2 Revenue Administratio

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

According to the information presented by the chairman, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	Estimated Revenue (Rs)	2022			2021			Arrears as at 31 December (Rs)
		Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	
(i) Rates and Taxes	1,738,714	4,448,370	4,381,620	3,041,364	1,732,737	3,626,390	2,658,714	2,974,614
(ii) Rent	14,130,040	4,866,449	3,486,129	1,572,770	13,142,085	3,986,400	4,354,962	192,450
(iii) License Fees	1,090,650	622,366	743,766	-	984,350	796,750	754,400	121,400
(iv) Other revenue	15,043,100	9,761,650	9,420,711	414,907	8,813,000	14,724,990	15,743,682	73,968
Total	32,002,504	19,698,835	18,032,226	5,029,041	24,672,172	23,134,530	23,511,758	3,362,432

2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the sabha.

Audit Observation	Comment of the Sabha	Recommendation
(a) There was an outstanding balance of Rs.1,363,054 in respect of 867 assessment units at the end of the year under review.	The Arrears will be collected in the future.	The arrears of income should be collected as soon as possible.
(b) The assessment tax was collected from 1,855 assessment units based on the survey conducted in the year 1992 and, the assessment tax had not been collected in accordance with Section 134(2) of the Pradeshiya Sabha Act No. 15 of 1987 to identify the assessment property even at the year under review.	A council decision will be taken to expand the assessment areas in the future.	Action should be taken according to the Act.
(c) According to Section 20 of the Taxation and Assessment Act No. 30 of 1946, assessed property should be assessed once in 05 years, however the council had collected assessment tax in the year under review based on the assessment of 2016.	A new assessment is being done.	The action should be taken according to the Act.
(d) 178 shop rooms owned by the sabha were leased at the end of the year under review, out of which 48 shop rooms should have received arrears of Rs.568,050. Out of the 48 shops with outstanding balances, 19 shops had outstanding balances of more than Rs.6,000.	That Arrears will be collected in the future.	Action should be taken according to the Act.

- (e) There was a receivable balance of Rs.347, 505 as stamp duty as at 31 December of the year under review from the Chief Secretary of the Provincial Council. That Arrears will be collected in the future. Action should be taken according to the Act.

3. Operational Review

3.1 Performance of functions assigned by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comment of the Sabha	Recommendation
In terms of section 126 of the Pradeshiya Sabha act, by-laws for renting Hakmana Danny Abeywickrama - playground, provisions related to approving building plans within the non-urban area of the Pradeshiya Sabha area and for renting the town hall had not been enacted.	That two by-laws are being prepared and one by-law is to be approved.	Action should be taken according to the Act.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
According to Sections 23, 24(I) of the Pradeshiya Sabha Act No. 15 of 1987, the road markings and boundaries should be marked and a list of them should be published in the Gazette, however 445 of the 631 roads in the sabha area were not published and the number of unmapped roads was 481.	Road mapping is in progress.	Action should be taken according to the Act.

3.3 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
It was not confirmed whether the Pradeshiya Sabha had obtained development permits for 11 buildings constructed in the non-urban area and 06 buildings constructed in the urban area and during the construction of these buildings, the building limit had acted contrary to the provisions of Gazette Notification No. 2235/54 dated 08 July 2021, which includes planning and development orders/regulations of the Urban Development Authority.	It has been informed to submit the necessary documents for the consideration of the regularization of the relevant constructions.	Action should be taken according to the gazette notification.

3.4 Deficiencies in Contracts Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) Due to non-utilization of the prescribed rate in the development of roads by concreting which had been implemented on the basis of council funds, Rs. 32, 530 was overpaid during the year under review.	It can be reduced from the retention money in the future.	Payment should be made only for the amount of work performed.
(b) An additional amount of Rs. 53, 417 was included in the bills for the work that was not done during the development of Narawelpita South Mutthettu watta Road.	The length of the Hume pipes be corrected to 12 feet (3.6m) and recommendations made for payment of the bill.	Correct measurement sheets should be prepared.