

Pasgoda Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pasgoda Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position, as at 31 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 Pasgoda 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 with 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.

- 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.
- 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
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(a) Provisions of Rs.2,859,239 had been made under Industrial Creditors for the construction industry of Urubokka Bus Station water tank, which had not been contracted and started the work during the year under review.	The contract was signed on 30 December 2022 and the work started on that day and the work was completed on 10 March 2023.	Should be accounted correctly.
(b) A creditor provision of Rs.280,000 had been made in relation to 07 industries which had not been implemented in previous years.	These works are currently being finished.	Should be accounted correctly.
(c) In the year under review, stamp duty income was over-accounted by Rs.236,650.	An estimate will be added to the billed revenue in the future.	Should be accounted correctly.

- (d) In the previous years, the building construction development work had been started and had been stopped expenditure incurred for them was 3,920,532 that expense was not accounted. That was corrected by journal entries. Should be accounted correctly.

1.6.2 Lack of Documentary evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to non-submission of Estimated value, transfer value, 02 accounting items totaling Rs. 12,000,000 could not be satisfactorily vouched during the audit.	That was accounted for on sale value pending receipt of valuation reports.	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 Non – Compliance Laws, Rules, Regulation and Management Decisions	Comment of the Council	Recommendation
1988 Pradeshiya Sabha (Finance and Administration) Rule No. 185	The current account maintained by the council for transactions related to public funds had an average cash balance of Rs. 3,235,196 and the attention of the council was not focused on the investment of that excess money.	The surplus money will be invested in fixed deposits. Action should be taken according to the Financial Regulation.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December amounted to Rs. 31,630,036 as against the excess of revenue over recurrent expenditure amounting to Rs. 11,036,507 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 chairman, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

		2022					2021		
Source of Revenue	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	
(i)	Rates and Taxes	1,991,500	2,335,586	1,910,523	512,283	2,047,000	2,066,531	2,094,244	87,220
(ii)	Rent	10,883,760	7,256,696	7,886,314	675,470	9,808,960	7,016,792	6,302,167	1,305,088
(iii)	License Fees	821,150	1,042,543	981,105	195,438	901,100	134,750	134,750	134,000
(iv)	Other revenue	4,421,200	6,682,253	6,141,871	742,815	5,093,900	2,652,215	2,808,661	202,433
		<u>18,117,610</u>	<u>17,317,078</u>	<u>16,919,813</u>	<u>2,126,006</u>	<u>17,850,960</u>	<u>11,870,288</u>	<u>11,339,822</u>	<u>1,728,741</u>

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) As per section 134 of the Pradeshiya Sabha Act No. 15 of 1987 and published by Gazette No. 2284 and dated 10 June 2022, assessment tax from properties located in developed areas had not yet been collected by the end of the year under review.	Property identification surveys are being carried out.	Action should be taken according to the Act.
(b) The shop rents of Rs. 440,410 had to be collected from 36 lessees who had leased shop rooms owned by the council by the end of the year under review.	Arrears of income will be collected as soon as possible	Arrears of income should be collected as soon as possible.

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| (c) | According to paragraph 05 of the circular of the Southern Province, Local Government Commissioner No. දපපා/පපාකො/2010/01 dated 27 December 2010, the shop lease agreements related to 18 shops owned by the council had not been updated, and according to paragraph 06 the shops in three shopping malls owned by the council were not updated and 48 rooms were not assessed for tax. | The actions will be take. | Action should be taken according to the circular. |
| (d) | The court fines of Rs. 154,773 and stamp duty of Rs. 26,567,570 had be collected from the Chief Secretary of the Provincial Council as at the end of the 31 December of the year under review, | No stamp duty revenue or court fine revenue has been received during this year. | Arrears of income should be collected as soon as possible |

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 -----
(a) About 02 tons of garbage is collected in the area of Pradeshiya Sabha per week Although compost is produced using decomposable waste, compost production is not done efficiently due to insufficient space in the compost yard and the compost yard does not have a roof. By the end of the year under review, a permanent and formal program to recycle the non-biodegradable waste collected in the council area had not been implemented.	An estimate has been submitted to the Local Government Department for the provision required to prepare a roof	A formal and permanent arrangement should be implemented for garbage disposal.
(b) As per No. 15 of 1987 of the Pradeshiya Sabha Act 126 sub-section, planning and development regulations regarding the construction of buildings in the non-urban area and bye-laws including general regulations for renting the public stadium owned by the council had not been enacted.	The action will be taken to enact a by-law.	The by-laws should be enacted as soon as possible

3.2 Operating Inefficiencies

Audit Observation

As per the 02 nd Schedule of the Gazette Notification No. 2235/54 dated 08 July 2021, which includes the plans and development orders/regulations of the Urban Development Authority regarding 07 constructions in the urban development area without obtaining a development permit, the fees of Rs.2,056,115 had not been taken to formalize those constructions.

Comment of the Sabha

The necessary activities are carried out to approve the plans.

Recommendation

Action should be taken according to the Gazette notification.

3.3 Deficiencies in contract administration

Audit Observation

- (a) Under the regional infrastructure program of the State Ministry of Provincial Councils and Local Government Affairs, for the construction of the town hall on the first floor of the Pasgoda Piadeshiya Sabha building, for an amount of Rs. 38,097,898, on July 09 of last year, a contract was signed with a contractor and the works amounting to Rs. 12,651,795 were completed and the construction of the contract had been abandoned on the half way. It was observed that the iron trusses used for the roof were getting bent and the ground floor of the building was getting damaged.

- (b) Under the Pradeshiya Sabha Infrastructure Development Program of the State Ministry of Provincial Councils and Local Government Affairs, for the construction of Mawarala market building for a contracted amount of Rs. 4,961,440, On 22 August of last year, a contract was signed with a certain contractor and the works value Rs.3,628,277 were done. It was observed that the construction of the contract was stopped in the middle and due to non-fulfillment of the remaining parts, the parts that had been constructed were being damaged.

Comment of the Sabha

- The work of the construction will be begin.

- The work of the construction are being expected to begin.

Recommendation

- After completion of the construction, necessary measures should be taken immediately for the safety of the building.

- Necessary action should be taken immediately.