

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Pitabaddara 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 Pitabaddara 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.

- (a) Financial Statements of the Pradeshia 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

	<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a)	An amount of Rs.4,441,297 spent for the development of Property belonging to the Council had not been Capitalized.	Will be rectified.	Should be accounted correctly.
(b)	Construction Debtors have been overstated by an amount of Rs.2,150,000 as of the end of the year under review.	Will be rectified.	Should be accounted correctly.
(c)	Provisions had not been made for an amount of Rs.806,247 for Miscellaneous Expenditure under Miscellaneous Creditors to be payable by the end of the year under review.	Will be rectified.	Should be accounted correctly.
(d)	209 inventory Items not in the form of Fixed Assets amounting to Rs.190,079 had been accounted under Property and Equipment.	Will be rectified.	Should be accounted correctly.
(e)	Creditor Balance relevant to the preceding years and the year under review had been understated by an amount of Rs.8,416,405.	Will be rectified.	Should be accounted correctly.

### 1.6.2 Un reconciled control account or records

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
There was a difference of Rs.575,657 between the Balances in the Financial Statements and their correspondent Utility Registers / Schedules of 07 Accounting Subjects totaling to Rs. 17,130,589.	Will be rectified in 2023	Action should be taken to rectify the accounts after comparing differences in the respective balances.

### 1.6.3 Lack of Documentary evidence for audit

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
Due to non-submission of detailed schedules and balance confirmations etc, 06 accounting items totaling to Rs. 1,335,762 could not be satisfactorily checked during the audit.	That Schedules do not exist.	Evidence must be submitted confirming the account balances shown in the Financial Statements.

### 1.7 Non - compliance

#### **Non - compliances with Laws, Rules, Regulations and Management Decisions**

The instances of non - compliance with Laws, Rules, Regulations and Management Decisions are as follows.

<b>Reference to Laws, Rules and Regulations</b> -----	<b>Non - compliance</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
571 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Action had not been taken as according to the Financial Regulations regarding the balances of Expired Miscellaneous Deposits, Tender Deposits and three months Security Deposits amounting to Rs.698,124	Action will be taken to rectify.	Action should be taken according to the Financial Regulations.

## 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 amounted to Rs. 19,640,754 as compared with excess of revenue over recurrent expenditure amounted to Rs. 5,339,119 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, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year is shown below.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue Billed. (Rs)	Revenue Collected (Rs)	Arrears as of 31 December (Rs)	Estimated Revenue (Rs)	Revenue Billed. (Rs)	Revenue Collected (Rs)	Arrears as of 31 December (Rs)
Rates and Taxes	1,687,000	1,500,829	1,700,085	1,700,329	1,640,000	2,462,123	1,413,173	1,899,585
Rent	23,053,480	18,802,283	18,542,216	2,708,797	5,295,000	3,051,965	2,693,584	2,448,730
License Fees	1,155,100	1,525,768	1,525,768	71,522	860,100	720,863	719,863	71,522
Other revenue	4,246,500	1,318,150	1,480,786	257,006	2,722,000	435,747	1,107,262	419,642
<b>Total</b>	<b>30,142,080</b>	<b>23,147,030</b>	<b>23,248,855</b>	<b>4,737,654</b>	<b>10,517,100</b>	<b>6,670,698</b>	<b>5,933,882</b>	<b>4,839,479</b>

### 2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below.

Audit Observation	Comment of the Sabha	Recommendation
(a) The developed areas of the council's area of authority were identified and published in Gazette No. 2212 dated 22 January 2021, according to Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987, and the Assessment Tax was passed for Collection on 12 April 2021. Yet action had not been taken to collect the Assessment Tax after estimating Assessment Property even as of the Audit date of 09 February 2023.	Assessment work will be done after the survey is completed.	Assessment tax should be collected as soon as possible.
(b) The arrears of Acreage Tax amounted to Rs.318,851 as of the beginning of the year under review and it amounted to Rs.327,982 as of the end of the year.	That action will be taken to collect arrears.	Arrears of income should be collected as soon as possible.
(c) 120 shop rooms belonging to the Council had been rented and Shop room Rent amounting to Rs.2,230,472 was to be collected from 66 taxpayers as of the end of the year under review and of them an arrears balance amount of Rs.857,230 was due from more than 03 years.	That action will be taken to rectify.	Arrears of income should be collected as soon as possible.
(d) Rent Contracts relevant to 60 Shop Rooms were not updated as of 31 December 2022.	That action will be taken to update the Shop Contracts.	Action should be taken to make agreements.
(e) The Court Fines and Stamp Fees to be collected from the Chief Secretary of the Provincial Council as of 31	That requests have been made to the Local	Arrears of income should be collected as

December amounted to Rs.450,000 and Rs.12,173,919 respectively. Government Department soon as possible. for collection.

- (f) Fees were not collected from one particular Hotel registered with the Tourist Board situated in the area of authority of the Pradeshiya Sabha as according to Paragraph 149 of the Pradeshiya Sabha Act No. 15 of 1987. That notification letters Revenue should be have been sent. collected as per 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**

-----

By-Laws were not enacted for the Guidelines for the approvals regarding Planning Buildings and Subdivision of Land within the Non-Urban areas within the area of authority of the Pradeshiya Sabha as according to the Paragraph 126 of the Pradeshiya Sabha Act.

#### **Comment of the Sabha**

-----

That action is being taken to prepare the by-laws.

#### **Recommendation**

-----

Action should be taken to prepare by-laws.

#### 3.2 Management Inefficiencies

#### **Audit Observation**

-----

- (a) The value of 08 Lands extent of 08 Acres and 08 Roods and 04 undisclosed sized Land was not Assessed and Accounted.

#### **Comment of the sabha**

-----

That action will be taken to account.

#### **Recommendation**

-----

Should be accounted correctly.

- (b) Although 180 Development Permits were granted for the Construction of buildings from 2016 to the year under review, Certificates of Conformity were obtained for only 15 buildings.

That action will be taken to formally carry out the work of providing Certificates of Conformity.

Action should be taken according to the Act.

### 3.3 Idle or underutilized property, plant and equipment

#### Audit Observation

-----  
The Dangala Weekly Fair Building was constructed under Criteria Based Development Grants initiated in 2018 and completed in 2019 for a billed value of Rs. 966,588, was not used even as of the end of the year under review for a near 1 ½ years due to the roof leaking rainwater as it was not constructed with a proper standard.

#### Comment of the Sabha

-----  
That action will be taken to reinstate the fair after fixing the defects.

#### Recommendation

-----  
Defects should be fixed and used.

### 3.4 Deficiencies in contract administration

#### Audit Observation

-----  
(a) An amount of Rs.370,859 was spent for the development of the Kosnilgoda – Rusiyagalawella road and an extra amount of Rs.107,210 was spent for using the T1 002 rate instead of the T1 006 rate for the transport of 602 square meters of earth under Subject no. 03.

#### Comment of the Sabha

-----  
That according to price analysis, if Tractors are to be used for the Development, then T1 – 002 can be used.

#### Recommendation

-----  
Appropriate rates should be used.

(b) An Advance of Rs.330,000 was paid to a Contract Society for the Construction of a Tank in the Morawaka kanda Water Source belonging to the Kotapola Pradeshiya Sabha, yet construction had been halted even as of 21 April 2023 as the already constructed parts had been washed away by the Water.

That action will be taken to collect the Advance after taking action to hand over the Construction of the water tank to the Kotapola Pradeshiya Sabha after making agreements with the Kotapola Pradeshiya Sabha.

Construction work should be done properly.