

## Yatyanthota Pradeshiya Sabha - 2022

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of financial statements of the Yatyanthota Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Subsection 172(1) of the Pradeshiya Sabhas Act, No. 15 of 1987 and provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Yatyanthota Pradeshiya Sabha as at 31 December 2022, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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 (SLAuS). 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 Sub-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 to be prepared of the Sabha.

#### **1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors 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 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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**

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements presented by the Pradeshिया Sabha are consistent with the preceding year as per the requirement of section 6 (i) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (i) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
a) Although an agreement had not been entered into for purchasing computers, an allocation of Rs. 900,000 had been made in the accounts.	Will be settled in the year 2023.	Corrective measures should be taken on the accounts.
b) The shortage of Rs. 1,583,588 relating to the manufacturing of fertilizer in the year under review, had been debited to the accumulated fund instead of being transferred to the income and expenditure account.	- Do.	- Do.
c) 15 lands and buildings valued at Rs. 55,119,772, had not been brought to accounts.	The Register of Fixed Assets will be updated.	- Do.
d) The sum of Rs. 784,000 received from a land that had been sold after being allotted, had not been credited to the revenue by eliminating from the deposit account. Furthermore, the sum of Rs. 100,990 recoverable with respect to actual sales, had not been accounted for as a receivable income.	Those values will be recovered in due course.	- Do.

## 1.7 Non-compliances

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

Instances of non-compliances with Laws, Rules, Regulations, and Management Decisions, are as follows.

<b>Reference to Laws, Rules, and Regulations, etc.</b>	<b>Non-compliance</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka.	Tender deposits valued at Rs. 98,600 older than 02 years, had not been disposed.	Will be looked into and settled.	The Financial Regulations should be followed.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure for the year ended as at 31 December 2022, amounted to Rs. 17,784,468 as compared to the corresponding revenue for the preceding year in excess of the recurrent expenditure amounting to Rs. 11,989,012.

## 2.2 Financial Control

### Audit Observation

Action had not been taken for the balance of Rs. 13,723,816 existed in 02 bank accounts in the year under review to be invested in at least a short term investment thereby failing to generate an income.

### Comment of the Sabha

Action will be taken to invest for a short time.

### Recommendation

Excess funds should be invested thus generating income.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Information, as presented by the Sabha, on the estimated revenue, billed revenue, collected revenue, and outstanding revenue relating to the year under review and the preceding year, is given below.

Source of Revenue	Estimated Revenue	2022			2021			
		Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates & Taxes	4,306,642	4,475,968	4,262,495	1,204,536	4,774,648	4,472,797	4,572,798	975,863
(ii) Lease Rents	8,479,900	7,874,817	8,417,067	153,951	8,800,960	5,611,520	4,809,011	606,638
(iii) License Fees	850,050	957,409	967,009	-	725,050	931,452	118,900	9,600
(iv) Other Income	<u>5,139,700</u>	<u>8,413,354</u>	7,458,054	<u>1,204,735</u>	<u>4,404,500</u>	<u>2,176,642</u>	<u>2,033,024</u>	<u>354,198</u>
	<u>18,776,292</u>	<u>21,721,548</u>	<u>21,104,625</u>	<u>2,563,222</u>	<u>18,705,158</u>	<u>13,192,411</u>	<u>11,533,733</u>	<u>1,946,299</u>

### 2.3.2 Performance in Collecting Revenue

#### Audit Observation

- The sum receivable on 08 lands allotted during 2003-2010, had not been recovered in terms of Section (1) of the Pradeshiya Sabhas Act, No. 15 of 1987.
- Rates, acreage tax, and stall rents totalling Rs. 1,358,488 remained recoverable as at 31 December 2022. That balance included a sum of Rs. 640,898 continuing to exist over 01-05 years along with a sum of Rs. 22,060 older than 05 years.
- As no survey had been conducted in the years 2021 and 2022 with respect to business taxes and license fees in terms of Pradeshiya Sabha Rules

#### Comment of the Sabha

- Necessary action will be taken as being pointed out in the audit.
- Action will be taken for prompt recovery of the dues.
- A survey will be conducted in the ensuing year.

#### Recommendation

- Action should be taken in accordance with the Act.
- Outstanding revenue should be recovered without delay.
- The Rules must be obeyed.

59 and 67 (Financial and Administrative) of 1988, the collected revenue of Rs. 860,326 had been considered as the revenue of the year.

- d) A sum of Rs. 97,075 collected during the year had been considered as the revenue of the year rather than surveying and billing the billboards.

### 3. Operating Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
a) The creditors' balance comprised balances totalling Rs. 6,820,484 continued to exist over 01-04 years.	Action will be taken to settle.	The balances should be settled.
b) The value of a road cleaning machine received in the year 2019 as a donation, had not been brought to accounts.	The machine does not comply with requirements of the Sabha. The machine has been recorded in the Register of Fixed Assets considering the safety thereof.	In case of non-compliance with requirements of the Sabha, the machine should be disposed of.

#### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
a) 14 trade stalls constructed in Kithulgala at an expenditure of Rs. 1,950,822 in the year 2021, remained unused even by October 2022.	Leasing of 11 trade stalls has been completed, and leasing of other 02 stalls has been initiated.	Assets should not be allowed to be unused.
b) When 03 fish stalls in Yatiyanthota and Kithulgala had been given on lease, the assessment there of had not been obtained from the Government Valuer in accordance with instructions of the Commissioner of Local Authorities.	Further action will be taken in accordance with the guidance given in this connection.	Action should be taken in accordance with the instructions given.

#### 3.3 Human Resource Management

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
a) There existed 27 vacancies at the Sabha, and recruitments had been made for 10 of those vacancies under service agreements.	The appointing authority has been informed to fill the vacancies.	Vacancies should be filled as per requirements.
b) A sum of Rs. 169,423 remained due from 33 employees of the Sabha relating to the period of 1985 – 2015.	Action has been taken for settlement of the outstanding amount.	Outstanding loan balance should be recovered without delay.

**3.4 Assets Management**  
**Audit Observation**

	<b>Comment of the Sabha</b>	<b>Recommendation</b>
a) As 02 properties of the Sabha had not been given on lease during the period of 2020 – 2022, a revenue of Rs. 302,500, being the minimum bid value thereof, had been lost.	Action will be taken in accordance with the guidance given.	Revenue should be generated through assets that could be given on lease.
b) Ownership of 09 vehicles valued at Rs. 16,455,000 and a Bob Cat machine worth Rs. 3,200,000, had not been taken over.	Two of the 09 scrap vehicles will be disposed of, and the other vehicles will be taken over.	Ownership of assets should be settled.
c) 07 vehicles valued at Rs. 11,302,500, a backhoe, and a water bowser, remained non-functional over a period of 01 to 13 years.	Action has been taken for disposal.	Assets should not be allowed to be unused.
d) 18 lands of the Sabha had been brought to accounts under an assessment of Rs. 69,636,100 made by a Committee in non-compliance with Treasury Circular No. 04/2017 of the Sabaragamuwa province dated 16 August 2017.	This issue will be solved in the year 2023 by obtaining Government assessment.	The Circular should be followed.