

Elpitiya Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Elpitiya 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 changes in net assets, 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 Elpitiya 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 Practices.

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 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.

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) Deposit balances amounting to Rs.2,610,512 approved for income by the Sabha for more than 02 years had been accounted as income in the year under review.	Will be rectified in the future.	Should be accounted correctly.
(b) Fixed deposit interest income of Rs.362,264 receivable for the year under review had been accounted under fixed deposits.	-do-	-do-
(c) The value of the goods that were deposited and auctioned in the year 2022 amounted to Rs.1,171,499 as according to the board of survey report of the year 2021, and the cost of 18 items whose value was not stated was not removed from the assets.	Will be rectified in the future.	Should be accounted correctly.
(d) The receivable debtor balance for construction work that was completed during the year under review was overstated by amounting to Rs.100,948.	-do-	-do-

(e)	An amount of Rs.2,000,000 had been accounted under payable construction work Creditors the construction work which was not started during the year under review.	-do-	-do-
(f)	The construction work creditor balance of 04 construction works completed during the year under review was overstated by an amount of Rs.115,664.	-do-	-do-
(g)	The billing for stamp fees for the year under review had been understated by an amount of Rs.4,857,766.	The inequality will be compared and corrected in the future.	Should be accounted correctly.
(h)	Billing of court fines for the year under review had been under-accounted by an amount of Rs.949,834.	-do-	-do-

1.6.2 Non reconciled control account or Records

Audit Observation

There was a difference of Rs.19,112,111 between the balances related to 05 accounting items shown in the financial statements as at 31 December of the year under review and the balances shown in the relevant utility registers.

Comment of the Sabha

Will be rectified in the future.

Recommendation

Action should be taken to rectify after comparing differences.

1.6.3 Lack of evidence for Audit

Subject

Due to non-submission of the necessary detailed schedules for 02 accounting items aggregating to Rs.1,218,068 could not be examine satisfactorily during the audit.

Comment of the Sabha

Action will be taken to solve.

Recommendation

Evidence should be submitted confirming the Account Balances.

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
(a) The Finance Regulations 104 of the Democratic Socialist Republic of Sri Lanka	On 09 May 2022, an unknown group had set fire to the Sabha's vehicle, but investigations were not conducted and necessary measures were not taken as per F.R.104.	The Secretary was verbally informed that it was unnecessary to carry out the investigation, as the council did not give approval as according to F.R.104 and that the loss was reimbursed by the insurance.	Action should be taken according to the Financial Regulations.
(b) Part IV(a) of the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka dated 22 April 2013	A fuel allowance amounting to Rs.870,000 had been paid although all the 29 members had not submitted the complete information to the Sabha to get the fuel allowance.	Action will not be taken to pay the fuel allowance without submitting the complete information that is to be submitted in the future.	Action should be taken according to the Gazette.

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 2022 amounted to Rs. 38,869,036 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 32,120,727 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 Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
Rates and Taxes	5,946,500	5,105,210	4,166,434	18,793,338	4,824,000	4,713,531	3,008,396	17,854,562
Rent	3,109,200	4,798,850	5,628,046	4,025,222	3,709,200	2,698,250	1,924,905	4,854,418
License Fees	716,500	1,209,894	1,236,244	13,550	2,251,000	992,167	970,217	39,900
Other Income	7,193,000	12,902,697	12,994,657	848,876	6,998,000	6,032,962	6,032,962	940,836
	16,965,200	24,016,651	24,025,381	23,680,986	17,782,200	14,436,910	11,936,480	23,689,716

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 Assessment and tax income to be collected amounted to Rs. 17,854,562 as at the beginning of the year under review and it amounted to Rs. 18,793,338 as at the end of the year under review.	An amount of Rs.1,302,768 has been recovered as at 21.03.2023.	Action should be taken to recover the arrears of income.
(b) There is no any amount collected from 7,499 assessment units of the Sabha in the year under review, and the outstanding balance of assessment to be collected from those units was Rs.16,981,098 and an amount of outstanding balance of Rs. 1,116,218 of 05 units above Rs.100,000 in the above-mentioned balance.	The tendency of the public to pay assessment tax has decreased and Action is being taken according to the Pradeshiya Sabha Act.	Action should be taken in accordance with the act and to recover the arrears.
(c) The valuation of the Sabha had not been done in 12 years.	Consent has been given to the Department of Local Government for property valuation.	An assessment should be made and the revenue should be recovered.
(d) The payable rental income at the beginning of the year under review amounted to Rs. 4,854,418 and at the end of the year under review it was Rs. 4,025,222.	The letters were sent at the end of every quarter for the collection of arrears.	Action should be taken to collect arrears of income.

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| (e) | The stamp fees of Rs. 4,300,080 and Court fine of Rs.199,750 receivable from the Chief Secretary of the Provincial Council as at 31 December of the year under review. | The letters have been sent to the Chief Secretary of the Southern Province. | The action should be made to collect the arrears of income. |
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3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
The land within the jurisdiction of the Sabha, where the Weeping Falls is located, was received by the Sabha as a freehold grant, but had not been developed or used for revenue generation.	That attention is being paid to increase the income of the Sabha.	Action should be taken to increase the generation of income to the Sabha.

3.2 Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) In the payment of Rs.899,573 under 02 phases for the development of Kahaduwa Levwattaduwa Road using soil, Rs.231,903 was overpaid due to not using the approved price rate of Rs.1,413 per cubic meter for normal soil.	Action will be taken according to the detailed work description and specific prices received from the Provincial Road Engineering office in the future.	The over payments should be recovered.
(b) Although the prices for cutting soil by human labor were used for reducing high side soil in relation to 07 industries ,Due to the use of excavator machines and JCB machines for this purpose, an extra payment of Rs.363,726 was made for 310.18 cubic meters.	- do -	- do -
(c) In relation to 05 industries, for cutting the soil in the side drains of the road, although the price rates for cutting the soil by human labor were used, because the soil was cut in the drains by using excavators and JCB machines, an extra payment of Rs.137,456 was made.	- do -	- do -

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| (d) | Although the September 2022 price rates introduced by the Provincial Road Development Authority in relation to 05 construction work should be used According to the agreement made with the contractor, yet an amount of Rs. 235,023 were over paid since those rates were not used. | In the future, estimates will be prepared according to the prices for each quarter, agreements will be reached and payment will be made accordingly. | Action should be taken to recover the over payment. |
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3.3 Human Resources Management

Audit Observation

From 03 officers who served in the Sabha and retired, 05 officers who vacated their post, Debt balances of Rs.174,468 due on 31 December 2022 had not been recovered.

Comment of the Sabha

Action is being taken to recover and if no replies are received, action will be taken to write off on the decision of the Sabha.

Recommendation

Action should be taken to recover the staff Loans.