

Yakkalamulla Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Yakkalamulla 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, 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 Yakkalamulla 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) The value of Rs.6,435,964 incurred for building construction and land development in the year under review and in previous years had not been capitalized.	Will be corrected in the future.	Should be accounted correctly.
(b) Goods purchased and consumed during the year under review for recurrent expenditure of Rs.668,400 had been capitalized under office equipment.	- do -	- do -
(c) The Sabha had capitalized the expenditure of Rs.742,608 incurred for the street lamp posts for the development of infrastructure under land and buildings.	Will be corrected in the future.	Should be accounted correctly.
(d) Machinery value of Rs.99,000 and furniture and equipment value of Rs.112,500 purchased in the year under review had not been capitalized under fixed assets.	- do -	- do -
(e) Although the construction work had been completed by the end of the year under review, the provision had not been made for 05 construction work which provision of Rs.1,642,252 had not been received.	- do -	- do -
(f) The cost of Rs.511,320 was reimbursed by the Yakkalamulla	- do -	- do -

Divisional Secretariat for the damage caused by the flood in the previous year and the amount had not been taken as income however was accounted as payable deposit.

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| (g) | The loan installment payment of Rs.662,925 of the Local loan Development Fund in the year under review had been debited to the Income and Expenditure Account. | - do - | - do - |
| (h) | The livestock of Rs.663,750 which had been purchased in the year under review and in the previous year had not been accounted at the end of the year under review. | - do - | - do - |
| (i) | Creditors provision was not made for recurrent expenditure of Rs.223,250 payable at the end of the year under review. | Will be corrected in the 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. 127,879 between the balances related to 04 accounting items shown in the financial statements as at 31 December of the year under review and the balances shown in the related schedules.	Will be corrected in the future.	Action should be taken to rectify after comparing differences.

1.6.3 Lack of Documentary evidence for Audit

Subject	Comment of the Sabha	Recommendation
Due to non-submission of necessary detailed schedules for the confirmation of 08 accounting items aggregating to Rs. 9,060,964.	Action Will be taken to correct in the future.	Evidence should be submitted to confirm the account balances.

1.7 Non-compliances

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
Section 3(1) of the Extra ordinary Gazzet of the Democratic Socialist Republic of Sri Lanka dated 05 October 2005	Rs.725,000 was paid for 16 members who did not attend the Sabha meetings in 2022 and did not submit the medical reports.	Since the Sabha have approved, arrangements have been made to pay the allowances.	Action should be taken according to the Gazzet.

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. 9,863,448 as against with the excess of recurrent expenditure over revenue amounting to Rs. 1,575,353 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 (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)
Tax	1,335,000	971,240	848,570	489,889	1,335,000	2,196,140	2,089,309	367,219
Rent	6,809,400	4,904,386	6,376,431	355,432	6,859,400	3,143,080	3,203,770	1,827,477
License Fees	444,500	543,506	543,506	-	833,500	223,796	223,796	-
Other revenue	8,635,000	9,079,007	14,502,202	736,460	8,424,000	6,831,119	6,886,875	6,159,655
	<u>17,223,900</u>	<u>15,498,139</u>	<u>22,270,709</u>	<u>1,581,781</u>	<u>17,451,900</u>	<u>12,394,135</u>	<u>12,403,750</u>	<u>8,354,351</u>

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 total outstanding income as at 01 January of the year under review was Rs.8,354,351 and at the end of the year it was Rs.1,581,781.	The awareness has been given for recovery of arrears of tax revenue.	The arrears of income should be recovered as soon as possible.
(b) There are 490 acrege tax units in the Sabha, out of which only 120 acrege tax units had paid the acrege tax for the year under review, and an amount of Rs.261,690 was outstanding from 370 acrege tax units.	A survey of arrears of acrege tax is being conducted.	The arrears of income should be recovered.
(c) 10 shop rooms were sub-leased by the Sabha's shop lessees for more than the assessed value. Thus, the contracts of 06 shops were not renewed.	It has been informed that the transfer should not be done for more than the assessed value and that contracts will be signed in the future.	Action should be taken according to the Circulars and Agreements.
(d) It was informed that Rs.2,000,500 for court fines and Rs.10,000,353 for stamp fees should be received from the Chief Secretary of the Provincial Council on 31 December of the year under review.	The action will be taken to receive in the near future.	The arrears of income should be recovered as soon as possible.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
The compliance certificates of the Sabha had not been obtained for 02 plots and sales of lands located within the jurisdiction of the Sabha, and common shares belonging to the Sabha were also not assigned. Also, by one sale did not pay the 1% tax receivable to the Sabha.	The sabha has not given approval for the land to be divided and sold.	Action should be taken according to the Act.

3.2 Assets Management.

Audit Observation	Comment of the Sabha	Recommendation
(a) The Sabha had not been taken steps to assess the value of the lands owned by the Sabha by the Government Valuation Department.	That they have not given their contribution.	The assessments should be done by the Valuation Department.
(b) 06 vehicles owned by the Sabha remained idle and had not been re-used.	It will be done on prior approval in the future.	The action should be taken to repair and put to use or dispose Idle assets appropriately.

3.3 Delays in projects, activities or capital works

Audit Observation	Comment of the Sabha	Recommendation
Rs.13,190,000 had been approved to implement 02 projects, and an expenditure of Rs.2,505,650 had been incurred by the end of the year 2021, however the projects had been abandoned without further implementation.	The remaining works are expected to be completed if the required amount will be approved.	The arrangements should be made to provide the necessary provisions to carry out the rest of the work.