

## **Bentota Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Bentota 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 Bentota 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

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) The value of Rs.32,739,002 incurred by the Sabha for the construction and development of buildings in the in the year under review and in previous years was not capitalized.	Will be corrected in the future.	Should be accounted correctly.
(b) A key money of Rs.1,543,500 billed in the year under review had been accounted as deposits payable without adjustment to income.	- do -	- do -
(c) Capital Creditors provision had been made for Rs.8,103,078 which billed had not been submitted as at 31 December of the year under review.	The creditor provisions will be made after submit the bills.	Should be accounted correctly.
(d) The non-refundable cover approval fines of Rs.13,918,706 collected in the year under review and in the previous years, by the Sabha were accounted as payable deposits without being taken into income.	Will be corrected in the future.	- do -
(e) According to the Southern Province Stamp Fees Diversion Charter No. 04 of 1994, stamp Fees of Rs.11,896,143 which was not entitled to be received was accounted as stamp fees receivable.	- do -	- do -
(f) The value of Rs. 4,724,117 incurred in previous year, for the development of the public stadium was not capitalized.	- do -	- do -

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|-----|---|--------|--------|
| (g) | The assessment tax amounting to Rs.336,713 which was written off due to revision of assessed value had not been accounted during the year under review. | - do - | - do - |
| (h) | The library books of Rs. 192,153, which were received as donations in the year under review, were not accounted as the income of the year.              | - do - | - do - |

### 1.6.2 Non reconciled control account

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs. 836,854 in between the balances related to 04 accounting items included in the financial statements and the balances shown in the related utility registers as at 31 December.	Will be corrected in future.	The action should be taken to correct by reconciling the differences.

### 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
The circular No. SLG/CLG/2010/01 dated 27.12.2010 issued by the Commissioner of Local Government, Southern Province	An amount of Rs. 10,175,000 had not been collected in charging the key money for the leased shop rooms by the Sabha.	The lease has been done on the open tender procedure for a period of three years and not on a long term lease basis.	The action should be taken according to the Circular.

## 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. 5,950,422 as against with the excess of recurrent expenditure over revenue amounting to Rs. 1,791,182 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)
Rates and Taxes	24,930,030	27,281,887	20,839,434	28,308,586	28,819,400	20,391,818	34,600,304	21,886,133
Rent	1,854,000	1,249,853	1,337,355	14,700	1,604,000	935,712	930,362	102,202
License Fees	885,400	621,766	636,171	90,245	710,900	783,971	1,755,515	104,650
Other revenue	7,399,100	6,970,944	6,023,539	1,264,178	6,771,500	4,319,434	4,222,630	316,773
	<u>35,068,530</u>	<u>36,124,450</u>	<u>28,836,499</u>	<u>29,677,709</u>	<u>37,905,800</u>	<u>26,430,935</u>	<u>41,508,811</u>	<u>22,409,758</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) As at 01 January of the year under review, the outstanding total income was Rs.22,409,758 and at the end of the year under review it was Rs.29,677,709. There was a deficit of Rs. 28,308,586 in Rates and Taxes.	The arrears are being collected.	The action should be taken to recover the arrears of income.
(b) The court fines amounting to Rs.329,966 and stamp fees amounting to Rs.36,367,227 should have been received from the Chief Secretary of the Provincial Council as at 31 December of the year under review.	That the balance of court fines will be collected in the near future, and Rs. 12,008,343 should be removed from the stamp duty balance.	The arrears of income should be recovered as soon as possible.

### 3. Operational Review

#### 3.1 Solid Waste Management Audit Observation

The disposable garbage collected by the Sabha is dumped in a part of the public stadium, and an amount of Rs. 316,000 was spent by the Sabha fund to thin the collected garbage, put soil on it and close it.

#### Comment of the Sabha

A plan has been made.

#### Recommendation

A long-term plan should be developed for waste management.

#### 3.2 Human Resources Management

##### Audit Observation

The action had not been taken to recover of Rs. 281,649 from 05 officers who were transferred, vacated post and retired after serving in the Sabha.

##### Comment of the Sabha

The action will be taken investigate further in the future regarding outstanding balances.

##### Recommendation

The action should be taken to recover the loan amount.