

Chilaw pradeshiya sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chilaw 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 Finance Operation, Statement of Net Assets Changes, Cash Flow Statement 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 and with the provisions of the National Audit Act No. 19 of 2018 read in conjunction with the sub section 172(1) of Pradeshiya Sabha Act No. 15 of 1987. 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 financial statements give a true and fair view of the financial position of the Chilaw pradeshiya sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 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 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 scepticism 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 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 include specific provisions for following requirements.

- (a) The financial statements of the pradeshiya sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (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 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit observation on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Salaries reimbursement and current assets had been under-accounted due to under-state of receivable permanent employee salaries by Rs.352,386 at the end of the year under review.	That will be corrected through journal entries.	Action should be taken to correct through journal entries.
(b) The receivable fixed deposit interest at the end of the year under review had been understated by Rs.10,275,357.	-Do-	-Do-
(c) The income of Rs.70,246 recorded in the previous year's income deposit account had not been corrected.	-Do-	-Do-
(d) At the end of the year under review creditors had been overstated by Rs.803,261.	-Do-	-Do-
(e) As on 31 st December of the year under review, there was a un settled suspense account of debit/credit balance of Rs.62,837.	-Do-	-Do-
(f) In the year under review, Rs.299,405 debited to creditors had been debited to other expenditure head.	-Do-	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) There was a difference in total value of Rs.13,038,704 between the 03 accounting subjects of financial statements and the schedules.	That the necessary action will be taken to correct these balances in the year 2023.	Action should be taken to correct the schedule balances and account balances.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
	Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(a)	F R 371 (c)	The advance of Rs.193,391 had not been settled immediately after completion of the concerned work.	That will be looked into in the future. The Financial Regulations should be followed.
(b)	F R 571	Deposits exceeding 02 years amounting to Rs.4,309,994 were not regulated.	-Do- -Do-

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 2022 amounted to Rs.87,785,753 as compared with the excess of revenue over recurrent expenditure amounted to Rs.124,403,348 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 the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sources	2022				2021			
	Estimated revenue (Rs)	Billed revenue (Rs)	Collected revenue (Rs)	Total arrears as at 31 st December (Rs)	Estimated revenue (Rs)	Billed revenue (Rs)	Collected revenue (Rs)	Total arrears as at 31 st December (Rs)
	000'	000'	000'	000'	000'	000'	000'	000'
Rates income	9,393	11,352	9,331	5,096	9058,	8,940	6,927	2,012
Rent income	10,153	11,904	9,755	3,041	9614,	5,486	5,155	332
License Fees	1,380	980	980	360	1,449	1,092	1,092	-
Other Revenue	<u>37,641</u>	<u>11,384</u>	<u>11,263</u>	-	<u>176,450</u>	<u>189,757</u>	<u>27,045</u>	<u>162,125</u>
Total	<u>58,567</u>	<u>35,620</u>	<u>31,329</u>	<u>8,497</u>	<u>196,571</u>	<u>205,275</u>	<u>40,219</u>	<u>164,469</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
As at 31 st of December of the year under review outstanding balance of assessment tax is Rs.4,798,560, acreage tax is Rs.297,186 and outstanding rent is Rs.3,401,752 had not been collected.	That will be charged in the future.	Action should be taken to recover the arrears of income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) As at 31 st December 2022, the sum of receivable account balances to the council was Rs.327,898,852 and the balance of Rs.215,689,852 which was over a year had not been recovered.	That will be charged in the future.	Action should be taken to charge the receivable money immediately.
(b) As on 31 st December 2022 the value of payable accounts balances was Rs.84,948,873.	That will be settled in the future.	Action should be taken to settle the payable money immediately.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Although the assessment tax should be revised once in 05 years by council but tax was being charged on the valuation made in the year 2016.	That a new valuation will be done.	The revenue should be charged according to the updated valuation.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) There were 53 unclaimed properties within the council area.	That action will be taken to takeover in future.	Actions should be taken to take over the relevant property immediately.
(b) The action had not been taken against an outstanding according to the annual board of Survey reports.	That action will be taken regarding the outstanding in future.	The recommendations of the board of survey should be followed.

3.4 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
Due to defects in 04 contracts worth Rs.1,446,719, the deposit amount of	That relevant notifications have been made.	Action should be taken to implement the defective

Rs.160,746 had not been released and the council did not take action to completed the defective industries by the respective contractors.

industries by the relevant contractors.

3.5 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) As on 31 st December of the year under review 01 secondary posts and 34 primary posts were vacant in the council.	Requests have been submitted and proper response had not been received so far.	The council should correctly identify the required number of employees and should get the approval for that.
(b) A balance of Rs.338,810 should have been collected from 47 employees who left, suspended and transferred in previous years.	That will be charged in future.	Action should be taken to charge the receivable employee loans balances immediately.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Council	Recommendation
Although the council had prepared an internal audit plan, the council's internal audit had focused only on leave, stores and inspection of compliance certificate.	That the necessary action will be taken in the future.	The audit should be planned and implemented to cover the important areas.

4.2 Budget Control

Audit Observation	Comments of the Council	Recommendation
(a) During the year under review, the total allocation of Rs.22,057,270 which was made in relation to 113 expenditure heads in the budget estimates, had completely remained.	That this situation has arisen due to act according to the circular of cost control.	Operational activities should be carried out in such a way as to achieve the budgeted targets.
(b) In relation to the year under review an allocation of Rs.40,542,00 had been made for 77 expenditure heads and less than 50 percent has been spend from that allocation.	-Do-	-Do-