

Wennappuwa pradeshiya sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Wennappuwa 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 Wennappuwa 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 except the audit matters of 1.6.1 (c),(d) and 1.6.2. (b) described in paragraph 1.6 of this report 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) 02 industries worth Rs.870,000 were completed in year under review had not been capitalized.	That will be adjusted to the asset accounts against the capital contribution account for income of the year 2023.	The necessary corrections should be done in accounts.
(b) Due to non-allocation for VAT related to the year under review the creditors had been understated by Rs.1,201,300.	That the creditors will be corrected adjusting the accounts by the journal entries in the year 2023.	-Do-
(c) The 05 lands whose value had not specified and 02 lands have been received as grants in the year 2021 had not been valued and accounted.	The revaluation of the council's land is being carried out as per the instructions of the Local Government Department and accordingly the accounts will be adjusted in the year 2023.	-Do-
(d) An amount of Rs.27,175,869, which was shown as deferred receivable balance in the financial statements from the year 2017 to the year under review had not been settled.	That the accounting errors that have existed for many years will be correctly identified and settled and presented in the 2023 financial statements.	Accounting errors and mistakes should be identified and necessary corrections should be done.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) The balance of the employee guarantee deposit account was Rs.535,618 and according to the schedule that balance was Rs.587,151 and there was a difference of 51,533 at the end of the year under review.	That will be corrected in 2023.	Action should be taken to correct the schedule balance.
(b) As on 31 st December of the year under review industrial creditors amount of Rs.27,367,484 coming from the year 2016 had not been settled.	That the payments will be made to industries that are able to pay or taken to the revenue of the council.	Action should be taken to settle the creditors.

- (c) As on 31st December 2022 the total receivable account balances of Council is Rs.424,581,241 and a balance of Rs.2,534,458 which was over 5 years had not been collected. That these arrears will be collected as much as possible and legal action will be taken for further inactive units and that will be removed from the books with reasonable matters. Action should be taken to collect the receivable immediately.

1.6.3 Unauthorized Transactions

Audit Observation	Comments of the Council	Recommendation
The amount collected from the children belonging to 15 pre-schools owned by the council through receipts stated the names of the council by December 2022 and deposited in the bank accounts was Rs.6,190,489. The collected money had been spent on various occasions without the approval of council and had not been subject to any audit. Also an amount from the council fund of Rs.14,894,945 had been spent for pre-schools in the year under review.	That a formal internal control system will be established to regulate the transactions in the accounts related to the 15 pre-schools.	All the revenue should be disclosed in financial account.

1.7 Non- Compliances

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

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

Reference to Non-compliance Laws, Rules Regulations etc.	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka F R 571	The worth of Rs.3,874,591 expired deposits had not been settled.	That the action will be taken to release the deposits or taken into the council's income.

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.96,054,678 as compared with the excess of revenue over recurrent expenditure amounted to Rs.94,011,251 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	19,610	20,037	16,005	9,531	18,595	16,930	14,338	7,352
Rent income	36,642	31,134	28,698	3,987	39,471	25,947	25,403	5,251
License Fees	4,290	3,817	3,817	264	4,135	3,519	3,519	508
Other Revenue	<u>17,823</u>	<u>17,703</u>	<u>8,782</u>	<u>7,360</u>	<u>335,078</u>	<u>220,684</u>	<u>165,839</u>	<u>54,845</u>
Total	<u>78,365</u>	<u>72,691</u>	<u>57,302</u>	<u>21,142</u>	<u>397,279</u>	<u>267,080</u>	<u>209,099</u>	<u>67,956</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
<p>(a) Rates</p> <p>As at 31st of December of the year under review outstanding balance of assessment tax was Rs.9,197,839 and in that deficit, there was Rs.4,395,260 between 01 year to 05 years and Rs.1,355,579 for more than 05 years.</p>	<p>That these arrears will be collected as much as possible and legal action will be taken for further inactive units and that will be removed from the books with reasonable matters.</p>	<p>Action should be taken to collect the outstanding immediately according to the provisions of the Act.</p>
<p>(b) Acreage Tax</p> <p>As on 31st December of the year under review, the arrears of acreage tax to be collected from the land owners was Rs.216,643 and out of which Rs.157,021 was due for more than 05 years.</p>	<p>That property identification surveys will be done and further work will be done accordingly.</p>	<p>Action should be taken to collect the outstanding Acreage Tax income immediately.</p>
<p>(c) Rent</p> <p>As at 31st of December of the year under review outstanding rent was Rs3,987,469 and from that there was Rs.863,564 for more than 05 years and Rs.1,714,104 between 01 year to 05 years.</p>	<p>That will be collected or take legal action in respect of uncollectible balances.</p>	<p>Action should be taken to collect the outstanding rent immediately.</p>

2.3 Surcharges

Audit Observation	Comments of the Council	Recommendation
Against those liable under Section 172(3) of the Pradeshiya Sabha Act No. 15 of 1987 Local Government Commissioner (North West) According to letter dated on 15 th February 2018 N.W.L.A.D. 02/09/01/01G.K.2006, Rs.326,355 was to be charged.	On two occasions from the Commissioner of North West Local Government and through the relevant department, the General Secretary of the Western Province has informed the then Director Human Resource Development and Management Training Institute at Mahawita Yakkala and the relevant officer with copies.	Formal action should be taken regarding recovery of surcharges.

3. Operational Review

3.1 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
An amount of Rs.3,729,962 had been spent on the construction of the walking lane and net fence at the Lunuwila Pradipa Stadium but the lane was overgrown with thorns and grass at now.	That they are properly maintained and taking to use.	The stadium should be kept up with maintenance.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The 6878 square feet upper floor of the Wennappuwa old marketing complex was given to 03 business companies for use without charging any fees and without legal tender.	That it is expected to be renovated in the future and leased through a formal tender procedure.	Action should be taken to collect the relevant fees according to a formal system.
(b) The Council had lost its income due to the non-leasing of Shop No. 08 which was 364 square feet on the first floor of the Wennappuwa New Commercial Multipurpose Building since 17 th May 2017.	It will be leased out in the future.	Council's property should be lease and collect revenue.
(c) An amount of Rs.500,000 had been spent in the reviewed year for providing dry food items to 250 low-income families and the Grama Niladari of the area had not certified that the beneficiaries were low-income earners.	That mistakes are being made to be corrected.	Correct information and necessary confirmations should be obtained.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although the assessment tax should be revised once in 05 years, tax was being charged on the valuation made in the year 2012.	To be implemented from the year 2024.	The revenue should be charged on updated valuation.
(b) A survey of the area once in 05 years was not taken to identify the land where acre tax can be collected.	That a survey is being progress.	The land which can be charged the acre tax should be identified though the survey and taxes charged be levied accordingly.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
There were 103 unclaimed properties within the council area which included offices, public markets, pre-schools, libraries, community halls and cemeteries.	It is informed that most of the lands have been surveyed and the full ownership of these lands is based on the Divisional Secretary.	Actions should be taken to take over the relevant property immediately.

3.5 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) 33 maintenance industries which were performed on the basis of direct labor were completed without preparing estimates and for non-estimated maintenance activities Rs.1,241,172 of materials were removed from stock registers.	Out of these industries 06 roads were prepared using ABC only, and the material consumption of those industries was for "repair of road potholes with ABC". Although material expenditure of 13 roads is recorded in the document, there is a difference between the name mentioned in it and the name mentioned in the estimate. Estimates and payment reports have been prepared for the remaining 14 roads.	Estimates should be prepared and the industries should be performed.
(b) Estimates were prepared for 15 roads during the year under review but it could not be detected whether their maintenance work was done or not.	Although the cost of material for these 15 roads has been noted in the document, there is a difference between the name mentioned there and the name mentioned in the estimate.	It should be confirmed that the maintenance work is done.

- (c) According to the stores account ledger of the maintenance department in the year 2022 only 74 chips cubes were recorded as chips stone receipts. Accordingly 74 out of 130 cubes, including 110 cubes purchased and 20 cubes from 2021 onwards were recorded and 56 cubes valued at Rs.719,600 had not been recorded.
- All chip stone cube quantities purchased in the year 2022 have been entered in the "Material Expenditure for Road Maintenance Unit" document in the premix section. But because chip stones were received at the premix yard before the date entered in the stores ledger and daily road maintenance work was carried out on those days those materials had to be used.
- Action should be taken to record receipts and issuing properly.
- (d) The balance of colas barrels brought forward from the year 2021 is 15 and the quantity purchased during the year is 150. Accordingly, the total amount is 165. But since 90 barrels have been included in the register, a stock of 75 barrels valued at Rs.2,088,750 has not been received according to the stores registers.
- Since the C.R.S.I barrels were received at the premix yard before the date of entry into stores and since the road maintenance work was done daily on those days, the material had to be used, so register of the "Material expenditure for road maintenance unit" of the premix section includes the same date as the C.R.S.I barrels were received at the premix yard that has been done.
- Receipts should be entered in the register on the relevant date.
- (e) Rs.449,975 was paid to the contractor for a foundation for the construction of a community hall in the middle of the colony, East Kahatavila No. 02 Mahayayawatta. The cables, which had been exposed to the external environment for about one and a half years, had suffered severe corrosion.
- That further work has been stopped due to lack of funds.
- The construction of the community hall should be completed immediately.
- (f) A contract for construction of Sendiriyamulla Compost yard was contracted for Rs.23,092,195 but the work was not completed. As on 30th September 2022, its physical progress was 31.75 percent and the value of work accomplished was Rs.8,639,214. It was observed during the physical inspection on 28th October 2022 that the work on this project has stopped and Rs.5,381,285 has been paid to the contractor by 28th October 2022.
- As the construction of the new compost yard at Sendiriyamulla is in the final stage, and that the building can be used in this year.
- The construction work should be completed immediately and action should be taken to hand over the land to the council.

3.6 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
The post of technical officer (special) in the council was vacant for many years and 03 secondary posts and 08 primary posts were vacant.	That requests have been made in writing to the Local Government Department.	action should be taken to complete the vacancies properly.

3.7 Utilization of Vehicles

Audit Observation	Comments of the Council	Recommendation
Two tractors had been recommended for disposal under formal valuation but had not been acted upon.	Said in above two tractors will be disposed of after receiving the valuation report.	The valuation report should be obtained immediately and disposed of.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Council	Recommendation
An amount of Rs.1,302,945 had been spent to fulfill 10 different tasks mentioned in the action plan, but the expected level of completion had not been achieved.	There political, economic and social issues, fuel and corona problems had to be faced a lot.	Action should be taken as per Annual action plan.

4.2 Internal Audit

Audit Observation	Comments of the Council	Recommendation
According to F R 133(1) internal audit is a process that helps to improve the operational process and increase the performance of the organization. But the pradeshiya sabha internal audit did not audit the capital expenditure and only covered the attendance register, data system and bank deposits.	That will be implemented in the future.	The audit should be planned and implemented to cover the all areas.

4.3 Budget Control

Audit Observation	Comments of the Council	Recommendation
Although a value of Rs.5,500,000 has been provided in the budget estimate in relation to 28 expenditure heads and the entire provision was not used in any way to achieve the budgeted tasks during the year under review.	There were no opportunities to implement recurring and capital programs. In many cases, when there were insufficient funds to carry out the necessary works, the funds were transferred from the available funds and the work was carried out.	Action should be taken to achieve the budgeted tasks.