

Weeraketiya Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Weeraketiya 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 Weeraketiya 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, 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 Court fine income receivable of Rs. 492,772 and stamp duty income receivable of Rs. 15,425,876 had been understated as at the end of the year under review	The receipt of court fine income was not accounted for as revenue receivable was uncertain and that the stamp duty schedule was not accounted as it was received in the year 2023.	Accounts receivable should be accurately accounted.
(b) The key money amounting to Rs. 7,603,683 received from the year 2016 till the end of the year under review, had been accounted as a deposit instead of being accounted as income.	According to the Local Government Commissioner's Circular, key money less than 5 years will be accounted as a deposit.	Income should be properly accounted.
(c) The recurrent expenditure of Rs. 1,864,295 incurred during the year under review for the maintenance of street lamps had been accounted as capital expenditure.	It is accounted as a capital expenditure as it is an expenditure in the form of capital incurred with the expectation of long term returns.	Expenditure should be properly accounted.
(d) The value of employee loan receivable as at 31 December in the year under review had been understated by Rs. 782,005.	Accept the audit observations.	Accounts receivable should be accurately accounted.
(e) The aluminum sheets and glass valued at Rs. 554,500 used in the year under review for the partition of Weerakatiya Helabojun Hall, had not been capitalized,.	Will be capitalized under land and buildings.	Capital expenditure should be properly accounted.

- (f) The receivables key money amounting to Rs. 200,000 for the Paskan Junction shop room leased had not been accounted in the year under review. The audit observation is accepted and key money amounting to Rs. 100,000 had been recovered. Accounts receivable should be accurately accounted.
- (g) The salary paid to the permanent staff and excess of reimbursement of councilors' allowances during the year under review amounting to Rs. 58,448 had not been accounted as a payable balance. The excess amount will be accounted as a balance payable on reimbursement. Accounts payable should be accurately identified and accounted.

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
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(a) Pradeshiya Sabha Act No. 15 of 1987			
	i. Section 23 and 24	A detailed road inventory had not been prepared for the council roads as per the referenced rule as at 23 March 2023.	The action will be taken to prepare formal road inventory.
	ii. The Section 134 (2).	Although the developed areas within the jurisdiction of the Sabha should be identified annually and the assessment area should be revised, however the assessment tax had been levied only for the developed areas identified in the year 1973 even in the year under review.	Surveys are being conducted to identify the developed areas and in the future the developed areas will be identified and gazette.
			The action should be done according to the Act.
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- (b) The financial Regulation 177(1) of the democratic Socialist Republic of Sri Lanka. The employee appointed to collect daily income from Helabojun halla in Weerakatiya collected Rs. 110,544 money, which was not remitted to the office, was kept in hand for between 01 to 15 days from the date of collection on 11 occasions. The duty of collecting the daily income and remitting the money to the office has been assigned to the Income Promotion Officer from 10 April 2023. The action should be done according to the Financial Regulation.
- (c) The Section 02 (iv) of Public Administration Circular No. 09/2009 dated 16 April 2009. For allowances paid after regular working hours such as overtime and holiday pay, if time based, the time shall be verified by fingerprint machine, however in the year 2022, for 60 days without verification of arrival and departure by fingerprint machine. An officer had been paid holiday pay of Rs.137,013. The fingerprint machine is not working and a new machine will be purchased in the future and it will be done accordingly. Considered as an essential activity, a fingerprint machine should be purchased.

2.1 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 amounted to Rs. 9,592,388 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 21,423,227 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, 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	3,284,000	3,857,349	4,348,772	5,519,094	5,299,000	2,936,609	2,234,028	6,010,517
Rent	28,371,000	27,392,546	25,761,670	19,290,045	20,612,000	20,485,220	7,973,036	17,659,169
License Fees	1,200,000	2,667,535	2,527,305	563,475	1,160,000	989,050	544,594	423,244
Other revenue	4,965,500	10,308,815	10,308,815	-	-	-	-	-
Total	37,820,500	44,226,245	42,946,562	25,372,614	27,071,000	24,410,879	10,751,658	24,092,930

2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the Sabha.

Audit Observation	Comment of the Sabha	Recommendation
(a) The assessment tax receivable from 2670 assessee units amounting to Rs. 5,019,165 as at 31 December of the year under review, had not been proceeded with Section 158 (1) of the Pradeshiya Sabha Act.	The arrears will be recovered by issuing property prohibition notices in the future.	Arrears of income should be collected as soon as possible
(b). As per Section 158 (1) (b) of the Pradeshiya Sabha act, the arrears should be recovered, however 185 owners of properties of their arrears more than Rs. 5,000 amounting to Rs. 1,511,993 had not been recovered.	The property will be for prohibited unpaid red notices in the future.	Outstanding balances in excess of value should be recovered as soon as possible.
(c) There were business tax receivable from 116 business units amounting to Rs. 360,600 and the industrial tax to be collected from 33 business units amounting to Rs. 31,500 as at 31 December of the year under review.	The arrears will be recovered.	Arrears of income should be collected as soon as possible
(d) As per Section 20 of the Taxation and Valuation Act No. 30 of 1946, the assessed property had to be assessed once in 05 years, however in the year under review, assessment tax was levied on the assessment of the year 2002.	Although a new assessment was conducted in the year 2018, due to the assessment objections received in the year 2020 and the Corona epidemic situation in the country, the valuation department informed in writing that the assessment objections could not be considered.	The action should be done according to the Act.
(e) The shop rent receivable from 19 shops owned by the Sabha amounting to Rs. 174,650 had not been recovered as 31 December of the year under review.	The action will be taken to recover the arrears.	The action should be done according to the agreement.
(f) Fair tax receivable as at 31 December of the year under review amounting to Rs. 18,564,700 and receivable rent income for the machinery hired of the Sabha amounting to Rs. 550,696 had not been recovered.	Legal action had been taken for Rs. 5,937,274 and Rs. 2,591,279 has been submitted for the approval of the governor and the machine rent will be recovered in the future.	Income and arrears should be collected by the Revenue Inspectors on time.

- (g) The parking fee receivable amounting to Rs.452,983 had been Arrears of income submitted for write off should be Rs. 490,475 had not been recovered as at 31 December of the year under review. approval of the Governor collected as soon and the approval had been as possible received only for Rs. 129,200.

2.3 Operational Review

Audit Observation	Comment of the Sabha	Recommendation
(a) From the year 2018 to the year 2022, 502 building development permits had been approved by the Sabha, however compliance certificates had been issued for only 50 buildings and the rest of the buildings had not been investigated as per Section 10 (6) of the Urban Development Authority Act No. 41 of 1978.	The necessary measures will be taken to avoid this problematic situation in the future.	The technical officers should check and proceed as per the Act.
(b) Non-installation of street lights, during the year under review, as per letter No. PE/01/01 dated 17 August 2010 from the Secretary, Ministry of Power and Energy expenditure incurred for maintenance of street lights amounting to Rs. 4,633,416 had not been reimbursed by the Electricity Board.	There are 112 villages in the jurisdiction of the Sabha, and the street lights were surveyed in one of them and the Ceylon Electricity Board was notified in writing to sign a contract, however no contract has been signed so far.	Proceed as per the letter and arrange for reimbursement of expenses.

3. Operational Review

3.1 Un-economic Transactions.

Audit Observation	Comment of the Sabha	Recommendation
From the year 2015 to the year under review, the cleaning service of the main office building premises of the Sabha is obtained from an external institution. The total expenditure incurred from the year 2020 till 31 December of the year under review was Rs. 1,584,000. Even though there are 09 excess workers in the current staff of the Sabha, they could have been employed to accomplish this task, however the entire expenditure incurred on providing the service from an external party was an uneconomical transaction.	It is not possible to employ the 21 health workers in the institution to clean the office premises daily because the requirement of labor is 26 for daily public works.	Existing employees should be managed and engaged in services.

3.2 Management inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) 11 business entities that obtained trade licenses had not been obtained environmental licenses in the year under review.	04 business establishments were closed, environmental protection licenses were given to 04 and letters were sent to get environmental protection licenses for 03 entities.	Businesses entities should be encouraged to obtain environmental license.
(b) From 15 December 2022, the Sabha started running a swan boat service project around the Udukiriwala lake and allowed a private party to run the boat service and collected ten percent of the daily income. However the approval of the Southern Province Governor and the Irrigation Department had not been obtained for the project report related to that project and there was no service agreement between them.	A reminder letter was sent to the Irrigation Department to get approval for the project.	Getting approval for the project report should also involve establishing by-laws and entering into a service agreement.
(c) Pursuant to paragraph 3 of Pulic Finance Circular No. 05/2019 of the Deputy Secretary to the Treasury dated 27 June 2019, a receivable of Rs. 158,802 had not been recovered from three employees who retired after serving in the council and were suspended from work.	The action will be taken to recover in the future.	the Action should be done to recover the employee loan.

3.3 Assets Management.

Audit Observation	Comment of the Sabha	Recommendation
By the end of the year under review, the action had not been taken to take over the legal ownership of 05 vehicles and machinery, 16 lands and buildings and 23 cemeteries, which had passed between 07 and 42 years since they were received to the Sabha.	The ownership of the vehicles was identified and requested to be handed over the land, buildings and cemeteries.	Urgent steps should be taken to take legal ownership of the assets.

3.4 Procurement Management

Audit Observation	Comment of the Sabha	Recommendation
In relation to Section 2.14.1 of the Procurement Guidelines,2006, as amended by Supplement No. 38 dated 21 April 2021, although the approval of the Chief Ministry Secretary regarding vehicle repairs exceeding Rs. 500,000, should be obtained, however without getting such approval for the repairs carried out in April 2022 for a cab, amounting to Rs. 1,241,852 had been incurred from the Sabha fund.	The relevant approvals will be obtained for such repair work to be carried out in the future and carried out correctly.	The action should be done according to the Procurement Guidelines.