

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of financial statements of the Passara Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out 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 Subsection 172(1) of the Pradeshiya Sabhas Act, No. 15 of 1987 and provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Passara Pradeshiya Sabha as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.2 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 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 Sub-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 to be prepared of the Sabha

**1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 special provisions are included in relation to the following requirements specified in the National Audit Act, No.19 of 2018.

- (a) According to the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statements of the Pradeshiya Sabha are consistent with the preceding year.
- (b) The financial statements presented includes 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 Observations on the Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Even though the total asset mentioned in the statement of financial position as at 31 December in the year under review amounting to Rs.388,714,149, the total balance of equity and liabilities as at that date was Rs.388,976,530.	Will be corrected in the next year	Accounts should be prepared accurately.
(b) A sum of Rs.15,702,473 spent under Regional Development Assistance Project in the year under review, had not been brought to accounts in the statement of financial operations.	Will be corrected in the next year	Accounts should be prepared accurately
(c) Returning of the provision amounted to Rs.3,562,438 received under Regional Development Assistance Project at the end of the year, had been brought to accounts as capital expenditure.	Will be corrected in the next year	Accounts should be prepared accurately
(d) A fraud fund balance had been shown as the name of fund account of Rs.26,132,529 which had been received by Regional Development Assistance Project as at 31 December in the year under review .	Will be corrected in the next year	Accounts should be prepared accurately
(e) Retaining deposits of industries in hand amounting to Rs.160,050 relevant to the year under review and preceding years ,had been shown under the deposit account and industry Creditors as well.	Will be corrected in the next year	Accounts should be prepared accurately
(f) A sum of Rs.366,764 relevant to 04 items of fixed assets in the year under review had been under capitalized.	Will be corrected in the next year	Accounts should be prepared accurately
(g) A sum of Rs.650,000 relevant to a cab vehicle which had been sold before 05 years, had been included under motor cars and carts in the statement of financial position.	Will be corrected in the next year	Accounts should be prepared accurately

### 1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
A difference of Rs.2,555,113 was existed between the totalling according to the ledger and the schedules in relation to that, relevant to 03 items of accounts as at 31 December in the year under review.	Action will be taken to correct by identifying the reason for the difference.	Accounts should be prepared accurately

### 1.7 Non-compliance

#### Non-compliance with laws, rules, regulations and management decisions.

Instances of non-compliances with Laws, Rules, Regulations, and Management Decisions, are as follows.

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
(a) Pradeshiya Sabha Rules for Financial Administration of 1988			
(i) Rule 217	A register in terms of Form P.S. 46 on all lands and buildings belonging to the Sabha and used by the Sabha had not been maintained.	Not replied	Action should be taken according to the Rules
(ii) Rule 218	Action had not been taken to inspect all lands and buildings by a board of inspection for the year under review.	Not replied	Action should be taken according to the Rules
(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka			
(i) FR 371(2) (b)	Advances amounting to Rs.88,496 paid in 03 instances in the years 2006 and 2014 had not been recovered.	Forwarded for the approval for writing off the balances and made aware of the trade stall owners also .	Action should be taken in accordance with the Financial Regulations

- (ii) FR 571 Lapse deposits amounting to Rs.1,055,264 named as reservation of play ground, calling bids, reservation of Town Hall and in various manners had not been disposed. Action will be taken according to the instructions of the Audit Management Committee in the future. Action should be taken in accordance with the Financial Regulations.
- (c) Paragraph 2 of Declaration of Assets and Liabilities Law, No.01 of 1975. Twenty two members had not submitted annual assessment and liability declaration from 2019 to the year under review. annual assessment and liability declarations had not been submitted. Assessment and liability declarations should be forwarded annually.

## 2 Financial Review

### 2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs.15,399,602 for the year ended on 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.17,248,216

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

According to the information presented by the Chairman, particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	7,181,159	6,271,199	3,599,138	2,672,061	5,974,702	6,644,767	4,290,443	2,354,324
(ii) Rents	20,873,872	20,481,563	15,709,218	4,772,345	29,884,112	21,005,458	11,602,690	9,402,768
(iii) License Fees	826,000	743,423	743,423	0	750,100	354,797	354,797	0
(iv) Other Revenue	14,569,500	21,629,273	12,220,263	9,409,010	11,904,000	14,261,548	8,667,676	5,593,872
<b>Total</b>	<b>43,450,531</b>	<b>49,125,458</b>	<b>32,272,042</b>	<b>16,853,416</b>	<b>48,512,914</b>	<b>42,266,570</b>	<b>24,915,606</b>	<b>17,350,964</b>

## 2.2.2 Performance in Collecting Revenue

Observations on Performance in Collecting Revenue of the Sabha are given below.

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and taxes amounting to Rs.133,118 outstanding from more than 02 years had not been recovered even in the year under review.	Action will be taken to increase the collecting of arrears in revenue by making aware the officers.	Arrears of rates and taxes should be recovered without delay.
(b) Water charges amounting to Rs.871,476 , tender trade stall rent amounting to Rs.2,803,532, other revenue of outstanding Rs.659,087 and outstanding rent of trade stalls of Rs.2,143,365 existing from more than 02 years, had not been recovered even in the year under review.	Action will be taken to increase the performance in collecting revenue by making aware of the officers in due course.	Arrears in revenue should be recovered without delay.
(c) A sum of Rs.4,370,763 of court fines and stamp fees of Rs.9,490,965 were due from the chief secretary of the Provincial Council and other authorities as at 31 December in the year under review had not been received.	Action will be taken to increase the performance in collecting revenue by making aware of the officers in due course.	Court fines and stamp fees in arrears should be received.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
In the year 2011, at the instance of commencing of Lunugala Pradeshiya Sabha, a sum of Rs.1,117,500 for motor cars and carts, employee loans of Rs.675,426, and outstanding other revenue of Rs.659,087 had been handed over to the Lunugala Pradeshiya Sabha by Passara Pradeshiya Sabha. The said handed over assets had been brought to accounts under current and non-current assets in the statement of financial position of the Passara Pradeshiya Sabha while the above handing over had not been settled from the accounts of the Passara Pradeshiya Sabha.	Any document or description for the confirmation of balances are not with us .	Written evidence for the confirmation of account balances should be furnished.

### 3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
<p>Environmental Protection License had not been obtained for the waste management centre which has been maintained at Meedumpitiya, Kudugalpathana area from 25 July 2017, according to Section 23 (b) of the Environmental Act, No.47 of 1980 issued for the disposal of waste. Even though, non degradable solid waste should not be disposed in an open area, non-degradable waste had been disposed to an open area near the waste yard.</p>	<p>Action will be taken to complete the defects by considering the ability of utilizing money and to obtain Environmental Protection License in the future.</p>	<p>Action should be taken to dispose waste in a proper manner.</p>