

Soranathota Pradeshiya Sabha -2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Soranathota 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 operation, and other explanatory information, including a summary of significant accounting policies, 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 Sub-section 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 accompanying financial statements give a true and fair view of the financial position of the Soranathota 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

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 (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this 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 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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism 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 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 the Pradeshiya Sabha 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- a) Financial statements of the Pradeshiya Sabha are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- b) The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
a) Funds received from the Local Development Support Project (LDSP), had been credited to the capital grants account in the year under review. When crediting the saved funds to the project executing bank account, a sum of Rs. 5,396,605 had been debited to the miscellaneous deposits account.	Receipts of funds have been accounted for under capital grants, and the savings have been debited as a decrease of deposits.	Accuracy should be ensured in preparing accounts.
b) The sum of Rs. 545,259 received for retaining under works as at 31 December of the year under review, had been shown as creditors in the statement of financial position.	Will be corrected in due course.	- Do.
c) The sum of Rs. 329,624 received in the year under review as salary reimbursement for the 02 preceding years, had been shown as a revenue of the year under review.	Action will be taken to avoid such inefficiencies in the future.	- Do.
d) The acting allowance of Rs. 60,300 reimbursed in the year under review, had been shown in the debtors' balance.	Having shown the acting allowance of Rs. 60,300 reimbursed in the year under review, in the debtors' balance, the current assets had been overstated by the same amount.	- Do.
e) The closing stock value of electric, water and consumer items valued at Rs. 735,954 kept at the store, had not been included in the general stock.	Will be adjusted through accounts in the ensuing year.	- Do.
f) Stamp fee income of Rs. 4,454,888 for the year under review had been shown as Rs. 4,187,822.	- Do.	- Do.
g) Although the stamp fee income due as at 31 December of the year under review amounted to Rs. 2,011,992, that amount had been shown as Rs. 1,022,431.	- Do.	- Do.

- h) The cart used to dispose waste that had been purchased at the value of Rs. 52,000 in the year under review, was brought to accounts as Rs. 520,000. - Do. - Do.

1.6.2 Un reconciled Control Accounts

Audit Observation	Comment of the Pradeshiya Sabha	Recommendation
A difference of Rs. 1,622,378 existed between the total of balances in schedules and the statement of financial position relating to 02 items of accounts as at 31 December of the year under review.	Will be corrected through final accounts of the ensuing year.	Account balances similar in value should be reconciled.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Detailed schedules had not been presented to verify the balance of machines, equipment, furniture and fittings valued at Rs. 6,105,101	Omissions had occurred it recording the relevant values in the books. Corrective measures will be taken in due course subject to the approval of the Management Committee.	Documentary evidence verifying the account balances shown in financial statements, should be made available.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulations ,

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are as follow.

Reference to Laws, Rules, and Regulations	Non-compliance	Comment of the Sabha	Recommendation
a) Pradeshiya Sabha Rules 1988 (Financial and Administrative) Rule 204.	Necessary action had not been taken on 152 units of 57 items the value of which had been unknown, identified in the survey.	Many of those items have been found. Recommendations will be executed with respect to shortages.	Suitable action should be taken on shortages identified through reports of surveys on articles.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Pradeshiya Sabha in excess of the recurrent expenditure for the year ended as at 31 December of the year under review , amounted to Rs. 5,637,185 as compared to the corresponding revenue for the preceding year in excess of the recurrent expenditure amounting to Rs. 2,935,636.

2.2 Revenue Administration

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

According to the information made available 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 given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .
(i) Rates and Taxes	102,724	97,906	56,314	41,591	101,724	98,498	68,639	29,842
(ii) Lease Rents	754,200	725,520	507,988	217,533	592,100	734,036	267,516	466,520
(iii) Other Income	3,851,000	2,273,740	1,725,835	547,905	2,999,260	2,580,133	1,602,385	977,748
Total	4,707,924	3,097,166	2,290,137	807,029	3,693,084	3,412,667	1,938,540	1,474,110

2.2.2 Performance in Collecting Revenue

Observations on performance of the Pradeshiya Sabha in collecting revenue are given below.

Audit Observation	Comment of the Sabha	Recommendation
a) Rates and Stall Rents Rates and taxes totalling Rs. 121,037 due over 02 years and outstanding stall rents amounting to Rs. 204,706 had not been recovered even in the year.	Suitable measures will be taken in due course.	Outstanding rates and stall rents should be recovered without delay.
b) Court fines and Stamp Fees Court fines amounting to Rs. 222,615 and stamp fees amounting to Rs. 793,026 receivable from the Chief Secretary of the Provincial Council and other officials as at 31 December of the year under review, had not been recovered.	At present, a sum of Rs. 29,100 has been recovered from the court fines where as a sum of Rs. 229,405 has been recovered. Requests have been made for the balance.	The outstanding court fines and stamp fees should be recovered.

3. Operating Review

3.1 Execution of Duties Vested through the Act

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

Audit Observation	Comment of the Sabha	Recommendation
a) An environmental protection license had not been obtained in terms of Section 23 (b) of the National Environmental Act, No. 47 of 1980 for disposal of waste.	Action is being taken to construct a compost yard at the location where solid waste is disposed of. The environmental license will be obtained thereafter.	An environmental protection license should be obtained thus disposing waste properly.
b) No activity whatsoever had been done relating to 176 miscellaneous projects scheduled through the annual budget of the year under review in connection with roads, public wells, weekly fair, and multipurpose buildings in the area.	As revenue could not be collected as expected, those activities could not be executed.	Common amenities should be provided for the general public.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Due to inefficiencies in supervising the activities such as, issue and acceptance of counterfoils, and acceptance of cash, the Sabha had lost a sum of Rs. 29,175 receivable from 03 counterfoils.	Action will be taken to avoid such inefficiencies in the future.	Action should be taken to recover losses.

3.3 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
In order to construct a 2 storied multipurpose building for Pradeshiya Sabha, a loan of Rs. 8,834,609 had been obtained in the year 2010 at an annual interest rate of 09 per cent from local loan and development fund under Asian development grants through project for development of infrastructure facilities of local authorities. According to the Conditions, a period of 12 years had been provided for settlement of the loan, but the balance of the loan amounted to Rs. 11,320,648 as at 31 December 2022. As such, the Sabha had failed to settle the loan and interest in full within the specified period.	The Sabha does not receive a revenue adequate to settle the installments. Action will be taken to settle the installments with revenue increased in due course.	Loan installments and interest should be paid as specified.