

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Agarapathana Pradeshiya Sabha for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, 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 Pradesiya 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 Agarapathana Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 for Local Authorities, 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The Financial Statements presented are consistent with that of 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 during the previous year are included in the financial statements presented as required by Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018, except for the observations in Section 2(b) (c) of Paragraph 1.6.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Policies

Audit Observation	Comment of the Sabha	Recommendation
Although there were two court cases filed against the Sabha, they had not been disclosed in the financial statements.	This matter will be corrected in the ensuing years.	Court cases should be disclosed.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The value of the Ayurvedic stock issued to the Norwood Pradeshiya Sabha in the year 2018 amounting to Rs.240,000 had not been levied by the Sabha and it had not been shown in the financial statements as a receivable amount.	Action will be taken to include the related creditors balance within the accounts for the ensuing years.	Financial statements should be prepared correctly.
(b) The error of the understatement of assets by Rs. 495,313 and liabilities by Rs. 4,514,359 and the overstatement of income, expenditure and liabilities by Rs.77,800, Rs.24,138 and Rs.111,493, respectively in the financial statement of the preceding year had not been corrected even during the year under review.	The relevant amounts will be correctly brought to account in the ensuing years.	- Do -
(c) The difference of Rs. 808,863 related to 04 items of accounts as per the balance sheet and the relevant schedules prepared as at 31 December of the preceding year had not been corrected during the year under review.	- Do -	- Do -
(d) For the purpose of correcting the misstatement of opening balance, although a sum of Rs. 102,700 and Rs. 52,134 should be debited to the furniture and fitting account and the office equipment account through the Journal No.41 and 46, respectively, and credited to the revenue contribution to capital input account, they had been credited to the accumulated fund.	This matter will be corrected in the ensuing years.	Account balances should be corrected.

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| (e) | Without being taken action to brought the court fines of Rs. 357,248 receivable to the Sabha from the relevant institution, it had been written off from the accounts during the year under review. | Action will be taken to recover the court fines receivable from the Thalawakele Urban Council. | Receivable income should be recovered. |
| (f) | The deficit of the stamp duty as at 01 January of the year under review amounted to Rs. 1,526,100 and the amount received from the said deficit was Rs.1,708,100. Accordingly, the amount to be adjusted to the accumulated fund was Rs.182,000. Nevertheless, a sum of Rs.556,520 had been credited to the accumulated fund, exceeding the due amount by Rs. 374,500. | Action will be taken to post the values to the accounts correctly during the next year. | Account balances should be corrected. |
| (g) | Advertisement board charges of Rs. 752,300 related to the year under review had not been brought to account. | These charges will be correctly accounted for in the ensuing year. | Revenue should be correctly brought to account. |

1.6.3 Unreconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
The balance of the fixed assets as at 31 December of the year under review amounted to Rs.20,389,351 and the balance of the revenue contribution to capital input account amounted to Rs. 19,422,323. Accordingly, there was a difference of Rs. 967,028.	Action will be taken to balance the relevant balances in the ensuing year.	Account balances should be corrected.

1.7 Non-compliance

Non-compliance with laws, rules and regulations

Instances of non-compliance with laws, rules and regulations are as follows

Reference to laws, rules and regulations	Non-compliance	Comment of the Sabha	Recommendation
(a) Acts	National Environmental Act No.47 of 1980 as amended by the Act, No.56 of 1988 and the Act, No.53 of 2000, and the regulations enforced thereunder.	Twelve institutions and 12 business enterprises, for which a time span ranging from 02 moths to 09 years had elapsed from the expiration of the validity period of the Environmental Protection Licence, had not obtained the Environmental Protection Licences.	The business enterprises, for which the licences should be obtained, will be informed to obtain licences. Action should be taken in accordance with the terms of the Act.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

F.R. 571(3) Twenty two balances totalled Rs. 644,542 continued to exist over a period from 02 to 04 years had not been disposed of. Not commented Action should be taken in accordance with Financial Regulations.

(c) Circulars of the Commissioner of Local Government

Local Government Commissioner's Circular No. 1988/22 dated 17 May 1988 Although assessment tax properties should be assessed at least once in 05 years, without doing so, tax were being levied based on the assessment conducted in the year 2008. Although request were made to the Department of Valuation, no proper response was received. Circular instructions should be complied with

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the expenditure of the Sabha in excess of the recurrent revenue amounted to Rs. 2,211,805 for the year ended on 31 December 2022 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 3,579,585.

2.2 Revenue Administration

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

According to the information submitted by the Chairman, the 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	1,959,000	2,916,056	2,755,710	2,089,498	1,958,038	2,521,992	1,701,193	1,929,151
(ii) Stall Rents	94,800	4,356		24,125	814,760	4,356	9,630	19,769
(iii) License Fees	2,610,000	1,447,000	1,447,000	-	4,040,000	1,420,500	1,875,800	-
(iv) Other Revenue	56,170,050	2,373,333	3,552,433	1,090,248	55,492,227	-	27,905,923	2,269,348
Total	60,833,850	6,740,745	7,755,143	3,203,871	62,305,025	3,946,848	31,492,546	4,218,268

2.2.2 Performance in the Collection of Revenue

Observations on the collection of revenue of the Sabha are as follows.

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Rates and Taxes There was an arrears amounting to Rs. 663,028 as at 31 December of the year under review, out of which Rs.145,058 related to 20 private properties remained outstanding for more than a period of 10 years and Rs. 361,590 related to 92 properties remained overdue for a period from 5 to 10 years.	This is due to absence of a Revenue Inspecting Officer.	Arrears of revenue should be recovered.
(b)	Other Revenue Advertisement board charges of Rs.778,700 had not been recovered from 13 institutions as at the end of the year under review.	Action will be taken to recover the revenue in the future.	- Do -
(c)	Court Fines and Stamp Duty Court fines and stamp duty receivable from the Chief Secretary of the Provincial Council and the other authorities as at 31 December of the year under review were Rs.519,248 and Rs..571,000, respectively.	Action has been taken to recover a certain amount of stamp duty.	- Do -

3. Operating Review

3.1 Execution of duties entrusted by the Act

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act No.15 of 1987 , 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)	No action whatsoever had been taken to carry out maintenance of constructions related to the works such as common ditches, drainages, waterways, and lavatories and to protect them in accordance with provisions in Sections 79,84,85,92,93 and 95 of the Pradeshiya Sabha Act.	The roads that should be published in the gazette are being identified.	Provisions of the Act should be adhered to.
(b)	There was no arrangement put in place to dispose of sewage, and no related gully bowser service had been	Due to the lack of adequate provisions, most of the public utility services have been	Functions outlined in the Act should be discharged.

maintained in accordance with Sections from 93 to 95 of the Pradeshiya Sabha Act. omitted.

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| (c) | According to the provisions of Part III of the Pradeshiya Sabha Act, construction of thoroughfares within the area of the Sabha, improvement, naming of streets, construction of roads for the benefit of private property owners, gazetting of roads owned by the Sabha, etc., had not been carried out using funds of the Sabha during the year under review. | Due to the lack of adequate provisions, most of the public utility services have been omitted | - Do - |
| (d) | Although duties should be discharged according to Section 78 (1) of the Pradeshiya Sabha Act, drinking water had been distributed to 474 consumers of 06 areas without doing laboratory tests and purification | Due to the lack of adequate provisions, most of the services could not be fulfilled. | The safety of the drinking water should be ensure through water sample testing. |
| (e) | In terms of Section 119 of the Pradeshiya Sabha Act, public markets and village fairs had not been established and maintained for the service of the inhabitants. | Due to the lack of adequate revenue, most of the public utility services have been omitted | Functions outlined in the Act should be discharged. |

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) For the purpose of constructing a passenger shelter in Manrazi town, the construction had been entrusted to a contractual company on 01 November of the preceding year on an estimate of Rs.500,000. While deviating from the approved plan, the contractors had constructed unauthorized building of two-storied of 6 x 10 meters in size so as to block the byroad and the temporary bridge which was set up for the construction of new bridge.	Not commented.	Action should be taken to remove unauthorized constructions.
(b) Out of the funds received on 12 September 2019 for the provision of facilities for the newly established local government institutions, a	Not commented.	Requirement should be fulfilled expeditiously.

balance of Rs. 1,855,755 had been retained in the general deposit account as at the date of audit.

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| (c) | Forty five units of furniture and fittings, 16 units of assets, 05 land and buildings and 06 public toilets existed as at 31 December of the year under review had not been valued and accounted for. | Action will be taken to state the value of relevant assets in the accounts in the ensuing years. | Assets should be valued and brought to account. |
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3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation

Seventy nine units of machine and equipment, furniture and office equipment amounting to Rs.1,202,013 as at the end of the year under review remained idle and underutilized for over a period ranging from 01 to 03 years.

Comment of the Sabha

As there is no building with sufficient space to house the office, it was not possible to use the purchased furniture and office equipment

Recommendation

Action should be taken to make purchase in accordance with the requirement and purchased items should be used.

3.4 Assets Management

Audit Observation

Investigations as per the F.R.104 had not been completed with regard to the vehicle accident occurred on 05 September 2020 and no action had been taken to repair the relevant vehicle. As a result, a rented vehicle had been used for the travels of the Chairman and Rs. 4,729,849 had been paid therefor during the year.

Comment of the Sabha

The vehicle has been referred to a private company and an estimate has been requested for the repairs.

Recommendation

Vehicle should be repaired and used.

3.5 Human Resource Management

Audit Observation

- (a) Despite the lapse of period of service ranging from 06 years to 24 years of 11 employees who had been attached to the Agarapathana Pradesiya Sabha from Nuwara Eliya Pradeshiya Sabha, no action had been taken to confirm them after looking into the possibility to their confirmation.
- (b) There were vacancies in 72 posts and since 02 posts of Revenue Inspector and 33 posts of labourer had fallen vacant, issues had arisen in collecting revenue, maintaining thoroughfares and carrying out waste management process.

Comment of the Sabha

The shortcomings of the personal files of each employee are being rectified.

Requests have been made to the Commissioner of Local Government regarding the vacancies.

Recommendation

Action should be taken to confirm the employees.

Vacancies should be filled.

4. Accountability and Good Governance
4.1 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
Comparison between the estimated revenue and expenditure with the actuals in accordance with the budget prepared for the year under review revealed variations ranging from 02 per cent to 100 per cent relating to 10 items of revenue, whilst variations ranging from 14 per cent to 308 per cent were observed with respect to 07 items of Expenditure . As such, the budget had not been made use of as an effective instrument of control.	Action will be taken to properly estimate income and expenditure in the ensuing years.	Budget should be prepared giving due consideration in keeping with the necessity.

4.2 Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
No action had been taken to establish a solid waste management centre for recycling garbage collected in the city and 237.5 kilograms of garbage had been disposed of daily.	It is expected to prepare short-term and long-term plans regarding waste management.	Solid waste management should be properly carried out.