

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hanguranketha 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 Hanguranketha 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.

1.6 Audit observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) During the year under review, a sum amounting to Rs.954,925 had been accounted for under creditors with the intention of purchasing computer accessories without calling for quotations or entering into agreements, while a sum amounting to Rs. 520,373 spent in the year 2023 in relation to the year under review had not been accounted for under creditors.	That the action will be taken to include them in the final accounts of the year 2023.	Correct value for the Financial Statements should be recognized.
(b) Ayurvedic drugs issued during the year under review amounting to Rs. 314,723 had not been brought to account.	That the action will be taken to rectify the error through the account of 2023.	Account balances should be rectified.

1.6.2 Unauthorized transactions

Audit Observation	Comment of the Sabha	Recommendation
Even though the balances of debtors, creditors and rates amounting to Rs. 28,418,523 had been written off from the accounts by way of 07 journal entries, no formal approval had been obtained for the same.	That the action will be taken to accurately identify the balances for the capital debtors and capital creditors and that it will be rectified in the account of the ensuing year.	A formal approval should be obtained for write-offs.

1.6.3 Lack of written evidence for audit

Audit Observation	Comment of the Sabha	Recommendation
05 account balances worth Rs. 3,623,025 as of 31 December of the year under review, could not be satisfactorily verified in the audit due to non-submission of schedules and expenditure details.	That, as there are balance inconsistencies in these balances from the preceding years, it will be sorted out in the future and correct schedules will be prepared.	Registers and schedules should be prepared and maintained.

1.7 Non-compliance

Non-compliance to laws, rules and regulations

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

Reference to laws, rules and regulations	Non-compliance	Comment of the Sabha	Recommendation
(a) By-laws			
(i) The by-laws governing the parking of motor vehicles on rent published in the Gazette Extraordinary No. 1726/15 dated 06 October 2011.	Even though 41 approved parking places were identified and gazetted within the area of authority, parking fees were not collected even by the closing date of the year under review.	That there will be 32 three-wheeler parking slots operational after having it made public by way of new gazettes and that they are going to be maintained accordingly.	Steps should be taken to charge fees.
(ii) By-law No. xxxix of the Local Authorities (Standard By-Laws) Act, No. 06 of 1952 published in the Gazette Extraordinary No. 520/07 dated 23 August 1988.	The advertisement boards on display were not approved by the chairman and the fees amounting to Rs. 166,684 were not collected for 98 advertisement boards during the year under review.	That the relevant trading institutions will be informed accordingly and action will be taken to collect the dues.	Action should be taken to charge fees.
(b) Circulars of the Commissioner of Local Government Circular No. 1988/ 22 dated 17 May 1988	The assessment property had not been valued after the year 2013.	That the Department of Valuation has been informed.	Circular instructions should be complied with.

2. Financial Review

2.1 Financial Results

In Accordance with the financial statements presented, the income over the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2022 was Rs. 2,328,001 as against the expenditure over the recurrent income of the preceding year amounting to Rs. 876,978.

2.2 Revenue Administration

2.2.1 Estimated income, Billed income, Collected income and Outstanding income

According to the information furnished by the chairman, the particulars with regard to estimated income, billed income, collected income and the income in arrears concerning the year under review and the preceding year are as shown hereunder :

Source of Income	2022				2021			
	Estimated Income	Billed Income	Collected Income	Total Income in arrears as of 31 December	Estimated Income	Billed Income	Collected Income	Total in arrears as of 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	4,294,300	5,288,672	5,478,464	1,760,691	4,273,000	4,729,785	2,522,152	1,950,481
(ii) Stall Rent	6,132,600	2,135,839	2,218,859	2,400,253	5,441,900	2,138,077	3,789,740	2,483,273
(iii) Licence Fees	866,200	2,327,862	2,327,862	-	1,160,200	1,939,077	1,939,082	-
(iv) Other Income	81,723,134	17,970,936	21,212,496	4,607,719	69,731,900	-	62,381,511	7,849,279
	93,016,234	27,723,309	31,237,681	8,768,663	80,607,000	8,806,939	70,632,485	12,283,033

2.2.2 Performance in the collection of revenue

Observations in relation to the performance in the collection of income of the Pradeshiya Sabha are given below :

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and Taxes		
In the assessment tax balance in arrears amounting to Rs. 1,136,528 as of the closing date of the year under review, there were balances recoverable in a sum of Rs. 294,582 from 155 assessment premises over a period between 01 and 05 years and in a sum of Rs. 304,217 from 72 assessment premises for more than 05 years respectively and action had not been taken to collect such dues in arrears, having acted in pursuance of section 158 of the Pradeshiya Sabha Act, No. 15 of 1987.	That the necessary documents are being prepared for issuing a writ against 10 persons who have not paid the assessment tax.	Income in arrears should be collected.

(b) Rent

The stall rents in a sum amounting to Rs. 2,214,532 lying outstanding as from the year 2020 had not been recovered even by the closing date of the year under review.

That the relevant files have been handed over to the Office of the Commissioner of Local Government for taking over of the possession of such premises.

- Do -

(c) Licence Fees

During the year under review, license fees and industry taxes totalling Rs. 28,000 in relation to 14 industries had not been collected from 28 places.

That the action will be taken to recover license fees.

- Do -

(d) Other Income

As of the closing date of the year under review, the arrears of water charges amounting to Rs.75,375 had not been collected.

That the action will be taken to recover water charges in arrears.

Action should be taken to recover the amounts in arrears.

(e) Court fines and Stamp duties

The court fines and stamp duty receivable from the Chief Secretary of the Provincial Council and other authorities as of December 31 of the year under review, amounted to Rs. 396,619 and Rs. 4,211,100 respectively.

That the action will be taken to recover the income in arrears.

Action should be taken to have the income in arrears brought in.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Action had not been taken to settle up the loan balances of Rs. 380,420 of two officers on transfer, whose periods of transfer had elapsed between 01 and 04 years.	That there was a contradiction in the balances and, as such, it could not be settled up.	Disparities should be looked into and sorted out.
(b)	Even though, action had been taken to lease out 03 public toilets and a car park situated in the area of the Pradeshiya Sabha only during the period of Esala Perahera, the Pradeshiya Sabha had lost a potential income due to its failure of leasing out of those properties for the rest of the year.	That the action will be taken to turn it out to be a source of income for the Pradeshiya Sabha in the future.	Action should be taken to award it by tender in order to earn income.

3.2 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) The ownership of 76 public cemeteries within the area of the Pradeshiya Sabha had not been transferred in favour of the Sabha.	That the arrangements are being made to have the public cemeteries transferred to the Sabha.	Arrangements should be made to have the lands acquired.
(b) Ten buildings of Ayurvedic purpose, crematoria, libraries, pre-schools, toilets etc., 10 stall premises in Rikillagaskada and the buildings in the premises of Rahatungoda Pola situated within the area of the Pradeshiya Sabha were left out to be destroyed without proper maintenance and repair while some of the buildings and lands were not provided with protection, having erected boundary fences around.	That the repairs are undertaken having funds made available as the financial provisions of the Pradeshiya Sabha are not sufficient.	Safety should be ensured and buildings should be repaired, maintained and put to use in an effective way.
(c) Even though, the iron frame had been constructed using concrete posts for the purpose of constructing a 33' x 21' sports pavilion at the Rikillagaskada playground, it could not be put to use due to the reason that the roof thereof had not been erected and the iron frame was at the risk of facing decay.	That the construction will be carried out if financial provisions are available towards the maintenance of this premises.	Construction work should be completed and make use of it.
(d) The boundary fence of the land of the Deegalahinna crematorium premises had not been demarcated and the iron rods of the concrete slab of the crematorium were exposing to elements.	That the repairs will be undertaken in the future.	Measures should be taken to protect the properties owned by the Pradeshiya Sabha.
(e) The value of 05 land and building units had not been assessed and accounted for.	That the assets are being valued and brought to accounts.	Assets should be valued and accounted for.

3.3 Deficiencies in the administration of contracts

Audit Observation	Comment of the Sabha	Recommendation
The lavatory built up by the Central Provincial Department of Trade, Commerce and Tourism spending a sum amounting to Rs.2,600,000 during the course of the preceding year's Kolapatana Falls Project to develop the sanitary facilities thereat remained closed without being put to use due to reasons such as non-availability of electricity and absence of an access way.	That the water facilities are currently available and the required electricity has been applied for.	The deficiencies concerned should be corrected and bring the facility to usable condition.

3.4 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
As of the end of the year under review, there were 38 vacancies in 17 posts with 09 persons being surplus in 01 post as per the approved cadre. Over a period of more than 05 years, the posts of secretary, works supervisor, pre-school teacher, crematorium operator and backhoe loader operator had also fallen vacant. Due to the absence of an Ayurvedic doctor, the Ayurveda Centre at Haguranketha and Idampitiya remained open for patient care services only for one day.	That a permanent Ayurvedic doctor has not been assigned to the Hanguranketha Pradeshiya Sabha by the Department of Local Government.	Steps should be taken to deliver the services of the general public in an orderly manner.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Sabha	Recommendation
Even though the action plan spells out that it will undertake to carry out the tasks such as identifying unpleasant and hazardous trading stalls and identifying environmental problems in the Pradeshiya Sabha area, preparing the food act and urban sanitation by-laws, drawing out training programs and dealing with unlicensed trading stalls legally, such tasks had not been put to execution.	That the Pradeshiya Sabha has implemented the welfare programs for the benefit and comfort of the people living in its area of authority and that the Pradeshiya Sabha has set up a committee consisting of officers in order to identify the sources of income for the year 2023.	Action plan should be complied with.

4.2 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
According to the budget prepared for the year subject to review, when the estimated income and expenditure in comparison with the actual income and expenditure, there were variations observed from 03 percent to 36 percent in 06 revenue objects and 03 percent to 32 percent in 06 expenditure objects, and as such, the budget had not been used as an effective tool of control.	That it was not possible to work out as per estimates.	Steps should be taken to go in hand with the estimates.