

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the BadalKumbura 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 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 financial statements give a true and fair view of the financial position of the BadalKumbura 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

I expressed qualified opinion 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, whether 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 scepticism 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

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

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all 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	Comments of the Sabha	Recommendation
(a) As on December 31 of the year under review, the balance of the fixed deposit account was Rs.2,302,043 but it was shown as Rs.2,246,108 in the statement of financial position.	The reason for this difference is an error in the calculation of interest. In the year 2023, the relevant error will be corrected in the preparation of accounts.	The correct balance should be entered into the financial statements.
(b) Interest on fixed deposits for the year under review was Rs.190,861 but it was shown as Rs.133,560 in the statement of financial operations.	The reason for this difference is an error in the calculation of interest. In the year 2023, the relevant error will be corrected in the preparation of accounts.	Calculations should be done correctly and the correct value should be entered in the financial statements.
(c) A non-refundable deposit of Rs.255,000 received on lease of a stall during the year under review was credited to the Accumulated Fund.	This will be corrected in the preparation of financial statements for the year 2023.	Income and expenditure of the Sabha should be correctly identified.
(d) Rs.226,990 spent during the year under review for obtaining three-phase electricity for the auditorium of the Sabha had not been accounted under fixed assets.	This will be corrected in the preparation of financial statements for the year 2023.	Correct values should be included in the financial statements.
(e) According to the deposit register maintained by the Sabha, the contract deposit balance was Rs.1,139,700 but it was stated as Rs.1,218,475 in the statement of financial position.	As this is a mistake in providing information for the 2019 account, it will be corrected in the coming year.	Correct values should be included in the financial statements.
(f) In the year under review, the stamp duty income was Rs.5,328,312 but it was shown as Rs.4,595,841 in the statement of financial operations.	Adjustments will be made in the preparation of accounts for the year 2023	Correct values should be included in the financial statements..
(g) As on December 31 of the year under review, the sum of stamp duty and court fine balances was Rs.6,077,639 but it was shown as Rs.5,288,423 in the statement of financial position.	Adjustments will be made in the preparation of accounts for the year 2023	Correct values should be included in the financial statements..

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| (h) | Capital expenditure of Rs.2,918,412 incurred for acquisition and development of property during the year under review was not accounted for under property plant and equipment in the statement of financial position. | Corrections will be made in preparing the financial statements for the year 2023 | Correct values should be included in the financial statements. |
| (i) | The retention of Rs.919,657 related to the first bill of the multi-purpose building which had started construction in the year under review was not accounted for. | Corrections will be made in preparing the financial statements for the year 2023 | All values should be included in the financial statements. |
| (j) | The amount of Rs.19,148,508 received for the year under review related to the local development supporting project was not shown in the statement of financial operations as capital assistance receipts and the amount of Rs.19,951,222 spent under the project was not stated in the statement of financial operations. | The corrections will be made in preparing the financial statements for the year 2023. | All income and expenses should be accounted for. |

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
A total value of Rs.321,408,417, in respect of 03 asset subjects could not be satisfactorily verified during the audit due to non-submission of fixed asset registry and reports and schedules of professional valutors' were not updated and submitted.	That the land and buildings will be assessed and accounted for in the year 2023 and the documents will be updated and corrected.	Values of assets should be accurately valued and accounted for and records and schedules should be maintained up to date.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows.

	Reference to Laws, Rules Regulations and management decisions etc	Non-compliance	Comments of the Sabha	Recommendation
(a)	No. 15 of 1987 Pradheshiya Sabha Act Section 24(1).	251 roads included in the road inventory maintained by the Sabha were not gazetted.	All the roads included in the road inventory will be gazetted in the year 2023	The roads included in the road inventory should be published in the Gazette.
(b)	Section 8 of the Urban Development Authority Act No. 41 of 1978 and Extraordinary Gazette No. 1597/8 of 17 April 2009	Compliance certificates had not been issued for 357 building plans approved by the Sabha between 2014 and 2019.	Notifications have been made to the relevant persons to obtain compliance certificates and compliance certificates have been obtained for several buildings and it has been made mandatory to obtain compliance certificates for building plans approved in the future.	Compliance certificates should be issued immediately for buildings constructed as per approved plans.
(c)	Circular dated 17th August 2010 of the Secretary, Ministry of Power and Energy	According to the street lamps registry maintained by the Sabha , 485 street lights were installed in the Sabha area, but there was no agreement with the Ceylon Electricity Board regarding street lighting.	Regarding the maintenance of street lights, the agreement will be made with the Ministry of Power and Energy in the future.	Actions should be taken according to the relevant circular.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 2,409,424 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 2,735,625 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 relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	<u>2022</u>				<u>2021</u>			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,150,200	911,857	718,998	192,859	966,200	896,357	654,130	242,227
(ii) Rent	3,055,200	3,695,759	3,478,159	217,600	3,871,400	2,526,806	2,277,790	249,016
(iii) License Fees	736,000	498,975	498,975	-	737,000	500,500	500,500	-
(iv) Other revenue	10,762,500	6,839,562	3,742,510	3,097,052	10,092,500	4,982,088	3,084,035	1,898,053
Total	15,703,900	11,946,153	8,438,642	3,507,511	15,667,100	8,905,751	6,516,455	2,389,296

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

Audit Observation	Comments of the Sabha	Recommendation
(a) Out of the total billed revenue of Rs.11,946,153 in the year under review, Rs.3,507,511 remained uncollected at the end of the year which was 29 percent of the total billed revenue.	Due to the inability to generate revenue from Pink quartz deposit under the other revenue head in the budget for the year 2022, variations have arisen with the estimated conditions.	Billed revenue should be recovered.
(b) Arrears business tax of Rs.42,000 due for the previous year related to 06 telephone transmission towers established in the Sabha area, has not been collected by 31st December 2022.	Letters have been sent to the relevant institutions to recover the arrears.	Arrears of revenue should immediately be recovered
(c) Arrears water charges of Rs.242,359 due on 31st December 2022 from 204 water consumers of Vatteyaya and Naramwatta water schemes belonging to the Pradeshiya Sabha had not been recovered.	Arrangements will be made to recover the arrears promptly in the future.	Arrears of revenue should immediately be recovered.

- (d) Court fines due from the Chief Secretary of the Provincial Council and other authorities as on December 31 of the year under review were Rs.1,561,313, and stamp duty was Rs.3,157,713. Documents have been forwarded to the relevant agencies for collection of arrears of court fines and stamp duty for the year under review. Arrears of revenue should immediately be collected.
- (e) Arrears rent income of Rs.241,270 due for the period 2017-2020 for the rental of 3 machines owned by the Sabha had not been collected. That the arrears of machine rents will be immediately recovered in the future. Arrears of revenue should immediately be recovered.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) In order to maintain the standard and quality of drinking water, water samples had been provided to the Office of the Medical Officer of Health in January 2022 to test the water samples of the two existing water projects, but no action had been taken to obtain the report and confirmed regarding the quality of the water by November 04, 2022.	That water quality testing is currently being implemented.	Action should be taken to maintain the quality and standard of the water distributed by the Sabha at a high level.
(b) Due to the construction of Bogahapalassa Shop No. 02 which was built in the year 2016 at a cost of Rs.1,617,483, in the road reservation, the ownership of that land could not be taken over to the Sabha .	It will be corrected in the year 2023.	Arrangements should be made to transfer the ownership of the land to the Sabha .
(c) The value of the Chinese tractor received by the Pradeshiya Sabha from the Agricultural Service Centre on November 29, 2017 was not assessed and accounted for.	The necessary arrangements are being made to hand over this vehicle to the advanced level technical education department of Badalkumbura Mo/Nishshanka National School.	The value of assets owned by the Sabha should be assessed and accounted for.

3.2 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) The legal ownership of 02 vehicles used by the Sabha had not been taken over to the Sabha .	Necessary arrangements to take over the legal ownership of the 2 unclaimed vehicles should be made in the future	Legal ownership of Sabha owned vehicles should be obtained.
(b) 78 lands of various sizes belonging to the Sabha had not been surveyed and legal ownership of 98 lands had not been taken over.	It has been informed to the Divisional Secretary to carry out the transfer of the land for which the surveying work has been done, and the necessary work to take over the remaining land will be done in the future.	Lands owned by the Sabha should be surveyed and legal ownership should be confirmed.
(c) 15 acres of Vaikumburawatta land in Pussellawa Grama Niladhari Division was taken over for the use of the Sabha on 14th December 2010 since, it was decided to use it for the waste recycling program at the special General Assembly meeting held on 12th June 2009, Rs.120,000 had also been spent in the year 2010 for surveying the land. Even though as long period as 11 years has passed, the relevant program has not been implemented and by November 04, 2022 and 25 unauthorized families had settled in this land.	A waste recycling centre was planned to be implemented in the Vaikumburawatta land in Pussellawa Grama Niladhari division, but could not be implemented due to public protests. But the Land Reform Commission has been requested to hand over this land to the Pradeshiya Sabha.	The security of the lands owned by the Sabha should be ensured.
(d) Under Puraneguma Project, a building worth Rs.29,228,282 was constructed at Higurukaduwa Sub office and hand over to the Sabha along with furniture and equipment worth Rs.1,479,300 in June 2017, but by November 2022 only library was maintained there.	Part of this building has been used for productive purposes by now.	The assets of the Sabha should be utilized with maximum efficient and effectiveness.