

Buththala Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Buththala 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 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 Buththala 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) An amount of Rs.313,241 received as direct remittances during the month of December of the year under review was not accounted for.	This mistake will be corrected in the year 2023	The direct remittances should be identified and accounted for by inquiring the bank and identified regarding them.
(b) The loan and interest amount of Rs.1,593,283 payable to the Local Loan and Development Fund in the year 2023 was not shown under current liabilities in the statement of financial position.	Do -	All values should be accounted for in the preparation of financial statements.
(c) In the Statement of Financial Position as on 31st December of the year under review, the loan balance in Local Loan and Development Fund was shown as Rs.11,992,193, but the outstanding amount up to November 2034 was Rs.17,393,335.	Do -	Do -
(d) Although the capital expenditure for the year under review was Rs.12,984,131, it was stated as Rs.6,130,936 in the statement of financial operations.	Do -	Accurate values should be included in the financial statements.
(e) According to the industry creditors register maintained by the Sabha, Rs.290,221 owed to a farmer organization for the construction of the roof of the Okkampitiya Public Library, and another 20 creditor balances of Rs.169,020, were not included in the statement of financial position.	Do -	All assets and liabilities must be properly accounted for.
(f) Rs.8,044,582 received during the year under review for Local Development Supporting Project, out of which capital expenditure of Rs.8,311,766 and recurrent expenditure of Rs.45,000 had not been shown in the statement of financial operations.	Do -	Accounts should be prepared correctly.

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| (g) | As per the General Ledger prepared for the year under review General Administrative Other Income was Rs.3,878,545 but in the Statement of Financial Operations it was shown as Rs.9,436,158. | Do - | All income should be correctly entered in the financial statements. |
| (h) | As per the General Ledger of the year under review General Administrative Recurrent Expenditure was Rs.51,103,562 but it was entered in the Statement of Financial Operations as Rs.58,343,857. | Do - | All income and expenses should be accurately entered in the financial statements. |
| (i) | The value of 02 industries worth Rs.799,854, whose work was completed during the year under review, was not capitalized. | Do - | The value of all assets owned by the Sabha should be accounted for. |
| (j) | During the year under review Rs.799,500 spent by the Sabha on purchase of 50 water meters, was not capitalized under property plant and equipment. | Do - | Do - |
| (k) | During the year under review court fines by Rs.328,000, and stamp duty by Rs.1,057,127, had been understated. | Do - | All income and expenses should be included in the financial statements. |
| (l) | As on 31st December of the year under review, outstanding court fines and stamp duty was Rs.4,523,081 but it was shown as Rs.2,501,813 in the statement of financial position. | Do - | Accurate values should be included in the financial statements. |
| (m) | The stock of stationery as on 31st December of the year under review was Rs.309,154 but it was shown as Rs.237,259 in the statement of financial position. | Do - | The value of the closing stock should be calculated accurately. |
| (n) | The assessed value of 04 cemeteries of Rs.12,400,000 was not accounted for and the value of 11 lands and 07 buildings were not assessed and accounted for. | Do - | The value of all assets owned by the Sabha should be shown in the financial statements. |
| (o) | 02 cases filed against the Sabha by external parties had not been disclosed in the financial statements. | Do - | Disclosures in financial statements should be made accurately. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.1,566,813 in comparing the values given in the financial statements and the values given in the schedules in respect of 02 accounts subject.	The difference in the values shown in the financial statements and schedules will be rectified.	Documents and schedules should be properly updated and the reasons for non-conformities should be corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-submission of reports of the professional valutors' and title deeds in respect of the balance of land and buildings amounting to Rs.309,199,670, it could not be satisfactorily verified during the audit.	Necessary activities are being carried out to obtain a formal assessment for the land and buildings owned by the Pradeshiya Sabha.	Values of land and buildings should be assessed by professional valutors.

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 etc.	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Act (i) No. 15 of 1987 Section 19 (xii).	15 shops owned by the Sabha were leased for 30 years and the approval of the minister in charge was not obtained.	The minister in charge has been requested to approve this long-term lease, but the approval has not been given.
(ii) Section 24(1)(a).	202 roads belonging to the Sabha were not gazetted.	Relevant actions are being taken to map the identified public roads and avenues and publish in the gazette
(b) Financial regulation of Democratic Socialist Republic of Sri Lanka No: 571	29 deposit balances of Rs.1,341,723 in the deposit accounts which exceeded 02 years had not been regulated.	In relation to long-term leasing, the approval of the Minister in charge of the subject should be obtained. Road inventory should be updated and published in the gazette. Financial regulations should be followed in relating to General deposit balances that exceed

the deposit money that is 02 years.
not released as income in
the year 2023.

- (c) Circular dated 17th August 2010 of the Secretary, Ministry of Power and Energy. Although the Sabha had installed 638 street lights, it had not entered into an agreement with the Ceylon Electricity Board regarding street lighting. That the necessary arrangements are made to enter into a contract with the Electricity Board. Arrangements should be made to enter into an agreement as per the 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. 6,098,689 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 8,618,055 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	2022				2021			
	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.
Rates and Taxes	2,191,067	2,183,916	2,247,344	-	2,191,067	2,183,916	1,677,199	506,717
Rent	6,604,400	9,734,116	6,242,250	3,491,866	6,503,500	6,706,532	4,634,882	2,071,650
License Fees	2,000,000	1,956,545	1,956,545	-	1,486,000	4,117,854	4,117,854	-
Other revenue	14,374,000	24,637,080	14,733,051	9,903,129	35,824,600	24,637,081	17,959,389	6,677,692
Total	25,169,467	38,511,657	25,179,190	13,394,995	46,005,167	37,645,383	28,389,324	9,256,059

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) Although the total billed revenue in the year under review was Rs.38,511,657, at the end of the year, there of Rs.13,394,995 was uncollected which was 35 percent of the total billed revenue.	The revenue in arrears will be recovered immediately	Revenues billed by the Sabha should be recovered.
(b) As on December 31 of the year under review, the arrears of Rs.764,630 due from 26 units of assessment tax exceeds Rs.10,000, had not been recovered.	Action will be taken to recover money from the arrears of assessment tax units in the future.	Assessment tax in arrears should be recovered.
(c) From the year 1988 to the year 2019, the rental income of Rs.1,864,472 due for the lease of 06 properties including the weekly fair, butcher shop and fish shop owned by the Sabha was not recovered.	Cases were filed to recover dues from 1988 to 2012, but the tenant could not be found, and in order to recover the arrears in the year 2019, the cases have been handed over to the lawyers for filing.	Arrears of rent should be recovered immediately.
(d) Shop rent of Rs.181,599 due from 14 demolished old shops which had been belonging to the Sabha, had not been collected even on 21 February 2023.	In order to recover these arrears, arrears notices have been sent to the respective shopkeepers asking them to pay the arrears and arrangements are being made to recover them promptly.	Arrears of shop rents should be collected promptly.
(e) An amount of Rs.174,000 to be charged from the year 2008 to the year under review from 07 telephone transmission towers belonging to 3 institutions established in the Sabha area of authority had not been recovered.	Arrears notification letters have been sent to the relevant private institutions to collect the outstanding telephone charges from the telephone transmission towers and it is expected to collect the due money for the towers in the future.	Arrears should be recovered promptly.
(f) As on December 31 of the year under review, outstanding water charges of Rs.449,787 due from 968 water consumers had not been collected.	That the arrears of water charges revenue will be collected promptly in the future	Arrears in revenue should be recovered promptly.

- (g) Court fines of Rs.104,680 and stamp duty of Rs.2,407,812 which should have been received from the Chief Secretary of the Provincial Sabha and other authorities as on December 31 of the year under review had not been collected. Necessary arrangements are being made to recover the outstanding court fines and stamp duty immediately. Arrears in revenue should be recovered promptly.

2.3 Surcharges

Audit Observation	Comments of the Sabha	Recommendation
As on 31st December of the year under review, an amount of Rs.696,241 should have been recovered in respect of surcharges imposed by me in previous years against the persons responsible under the provisions of the Pradeshiya Sabha Act.	The steps are being taken to recover surcharges from responsible parties,	Surcharges imposed should be promptly recovered from the responsible parties.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although it was announced through Gazette No. 2256 dated November 26, 2021 to charge vehicle parking charges at the identified places in the Buttala Pradeshiya Sabha area of authority, by February 21, 2023, charges had not been collected from 9 vehicle parking spots identified in the Sabha area of authority.	In future, arrangements will be made to collect money from parking lots	Money should be charged at identified vehicle parking lots.
(b) On 14 July 2022, 161.9 liters of diesel worth Rs.64,000 had been improperly disposed of by a motor grader belonging to the Pradeshiya Sabha and by 21 February 2023, the responsible parties had not been identified and the amount had not been recovered.	A complaint was submitted to the Buttala Police Station regarding the misplacement of fuel in the motor grader, and investigations are going on.	The responsible parties should be identified and recoveries should be made.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Regarding the collection of assessment tax, the developed areas were identified for the last time in 2004 and the developed areas were not identified time to time and the assessment tax was not collected.	Future actions will be taken to identify developed areas and collect assessment tax in 2023.	Time to time developed areas should be identified and tax to be levied.
(b) The property related to assessment tax was assessed for the last time in the year 2007 and assessments were not done time to time.	It is informed that the property has been assessed in time for the assessment tax in the year 2016 and it is being implemented from the year 2023.	Property related to assessment tax should be assessed time to time
(c) Since the assessment of Uva Provincial Chief Assessor No. MO/RD/498 dated July 24, 2018 was not followed, in charging the monthly rent of 67 stalls that had been leased by the Sabha for a long time, , the Sabha fund had lost an income of Rs.24,687,400 as on 31 December 2022.	According to the oral instructions and written note of the Governor of Uva Province, it has been informed by the Local Government Commissioner's letter No. 1/1/4/4/12 and dated January 05, 2021, to collect the shop rent that was being collected from 67 shops prior to the assessment.	It should be complied with the Assessment Act, and charges should be made according to the relevant assessment.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) The legal title of 52 lands belonging to the Sabha had not been taken over to the Sabha .	The possession of the property enjoyed by our institution is currently being carried out by the transfer orders, and the letter dated December 20, 2022 has been sent to the Buttala Divisional Secretary to do it promptly.	Legal ownership of lands belongs to Sabha should be taken over.
(b) Arrears rent income of Rs.8,746,725 due for the period 2010 - 2022 for the rental of vehicles and machinery belonging to the Sabha had not been recovered.	The arrears of rental income related to the previous years are currently being recovered and the remaining arrears will also be recovered promptly in the future.	Arrears in revenue should be recovered promptly.

- (c) The legal ownership of 02 vehicles used by the Sabha was not taken over to the Sabha . The mini tractor is in the possession of the Department of Agrarian Development, and repairs will be done and it will be legally handed over to the Sabha in the future. Also, the motor grader machine was received as a donation to the Buttala Pradeshiya Sabha, and since there are no documents related to it, the relevant work could not be done, as the original owner of this machine could not be found so far. Arrangements should be made to take over the legal ownership of vehicles owned by the Sabha .

3.4 Defects in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
In relation to 03 road gravelling projects, an amount of Rs.111,974 was overpaid due to the over-indication of the distance available for transporting gravel from the place where the gravel is received at Lunugala Colony, to the road being developed.	That the overpaid amount will be checked and necessary action will be taken in the future.	Payments should be made correctly.

3.5 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
The loan of Rs.112,569, which was given to 21 employees of the Sabha , which has been outstanding for more than 1 year, had not been recovered at the end of the year under review.	Action will be taken to recover the arrears as soon as possible.	Arrangements should be made to recover the arrears.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
As there are significant variations between the estimated income and expenditure in the budget prepared by the Pradeshiya Sabha for the year under review, and the actual income and expenditure of the year, the budget was not used as an effective control tool in the control of income and expenditure.	Steps will be taken to properly prepare the annual budget in the future	Annual budget estimates should be prepared more realistically and efforts should be made to achieve those goals.