

Hingurakgoda Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hingurakgoda Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022, Statement of Comprehensive Income, statement of changes in net assets/equity, statement of cash flow 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 the Provisions of the 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 Hingurakgoda Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard 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 in respect of 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 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 Sri Lanka Public Sector Accounting Standard, 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, enable to preparing 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 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) The Road Construction Value of Rs.4,856,034 completed under LDSP Project had not been accounted for .	Actions will be taken to account for.	The value of fixed assets should be properly accounted for.
(b) A number of 49 sets of solar street lights valued at Rs.2,303,000 purchased under LDSP Project had not been included in the assets of the year under review.	It has been brought to accounts by journal entries.	Assets should be accurately accounted for.
(c) The equipment cost at Rs.624,525 belonging to 22 items including 05 lawn mowers valued at	Actions have been taken to account for.	-do-

Rs.149,250 and 04 batteries with 120 amp purchased during the year under review had not been accounted for under the respective stock.

- | | | | |
|-----|---|--|------|
| (d) | Roads, bridges and culverts valued at Rs.22,276,087 and buildings valued at Rs.7,505,942 constructed on the basis of Pradeshiya Sabha funds and other government allocations as at 31 December of the year under review had been understated in the financial statements. | -do- | -do- |
| (e) | The value of hume pipe stock held as at 31 December of the year under review amounted to Rs.765,500 had not been shown in the financial statements. | -do- | -do- |
| (f) | The consumables valued at Rs.102,875 purchased from LDSP fund had not been included in the stock. | It has been brought to accounts by journal entries | -do- |
| (g) | When accounting for the value of the Tharuka Mandapa which was handed over to the sabha under Pibidemu Polonnaruwa Project, the cost of construction of the toilet system amounted to Rs.1,000,000 had not been included. | -do- | -do- |

- | | | | |
|-----|--|--|--|
| (h) | Asset leases which should have been recovered as at December 31 of the year under review valued at Rs.289,670 had not been recognized in the revenue and accounted for. | -do- | Revenues should be presented accurately in the financial statements. |
| (i) | Outstanding revenue of Rs.325,080 had not been included in the financial statements as per machinery rental documents. | The sum of Rs. 325,080 was accounted for. | Arrangements should be made for accurate presentation of accounts. |
| (j) | By failure of depreciating assets at the rates of depreciation specified in Circular No. 2019/02 issued by the Local Government Commissioner on 31 December 2019 the depreciation for the year under review had been overstated by Rs.90,636 . | Actions will be taken to calculate depreciation at accurate rates. | -do- |
| (k) | An industrial deposit of Rs.64,843 made on 11 June 2020 through Receipt No. 621, had been omitted from the financial statements. | Arrangements were made to account for omitted deposit values. | -do- |
| (l) | Sundry Creditors payable amounted to Rs.3,316,494 pertaining to the year under review had not been included in the financial statements. | It has been brought to accounts by journal entries. | -do- |
| (m) | The payments of Rs.247,785 which were refunded from the income earned by the Sabha had been shown as Assets receivable from exchange transactions. | It has been corrected. | -do- |

- | | | | |
|-----|--|---|------|
| (n) | The tender fee that should have been charged for 16 shops built on the land related to the lawyer's office premises built by the Pradeshiya Sabha in Higurakgoda Magistrate's Court area was Rs.3,465,325 and monthly rent to be collected had not been shown in the financial statements. | Actions will be taken to account for. | -do- |
| (o) | Due to giving a building belonging to the Pradeshiya Sabha to the Regional Engineering Office, the rental income receivable as on December 31 of the year under review amounted to Rs.730,000 had not been brought to accounts. | -do- | -do- |
| (p) | Official quarters rent income amounted to Rs.240,900 had not been included in the financial statements and the related arrears of income amounted to Rs.34,600 had not been shown under current assets. | This has been corrected by journal entries. | -do- |
| (q) | The sewage charges received in advance amounted to Rs.31,300 had been set off to the revenue of the year in accounting for arrears of sewage charges. | - do- | -do- |
| (r) | Although the capital expenditure grants received from the government and various institutions should not be recognized at once in | Actions will be taken to correct in future. | -do- |

the revenue and should be shown under Note No. 5 of the comprehensive income statement on the basis of calculation of depreciation, the total value of Rs.37,444,096 received as capital expenditure grants during the year under review was recognized as revenue.

1.6.2 Unreconciled Accounts

Audit Observation	Comments of the Sabha	Recommendation
(a) There was a difference of Rs.3,815,003 between the payables shown in the source documents and financial statements as at 31 December of the year under review.	Actions should be taken to correct.	Reconciliations should be made between the financial statements and the schedules.
(b) There was a difference of Rs.1,784,692 between the income receivable balance as per the financial statements and the income receivable register as at 31 December of the year under review.	-do-	-do-
(c) There was a difference of Rs.6,959,425 between the values presented as per the Notes to accounts the amounts of increase in receivables and increase in other current liabilities shown in the cash flow statement .	-do-	-do-

1.6.3 Lack of Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-submission of balance confirmations, age analysis , and updated documents in respect of 02 account balances valued at Rs.60,180,574 as at 31 December of the year under review, could not be satisfactorily vouched in audit.	Actions will be taken to update the documents.	The required evidence should be submitted for the audit.

1.7 Non-compliance

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

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

Reference to Laws, Rules, Regulations Management Decisions etc.	Non-compliance	Comments of the Sabha	Recommendation
Gazette No. 2235/54 dated 08 July 2021 which was published stating the provisions of the Urban Development Act No. 41 of 1978 of the National Assembly Section 83(1) of Part VI	Even though building plans for commercial buildings have been approved and development license had been obtained from the year 2017 to 2019, the Certificate of Conformity had not been obtained by 51 persons.	Although letters were submitted to obtain Certificate of Conformity there was no respond.	Attention should be taken to do in accordance with the Act.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the expenditure exceeding the income of the Sabha for the year ended 31 December 2022 was Rs.42,743,575 and the revenue that exceeded the expenditure of the preceding year as against to that was Rs.8,106,562.

2.2 Revenue Administration

2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

The details about the estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Income	2022				2021			
	Estimated Revenue Rs..	Billed Revenue Rs..	Collected Revenue Rs.	Total of Arrears as at 31 December Rs..	Estimated Revenue Rs..	Billed Revenue Rs..	Collected Revenue Rs.	Total of Arrears as at 31 December Rs..
(i) Rates and Taxes	9,854,319	10,793,144	10,115,549	2,850,403	9,253,005	8,043,777	9,325,820	2,172,808
(ii) Rents	37,687,276	23,010,550	17,635,820	12,846,296	22,024,338	17,109,358	17,718,960	7,471,506
(iii) License Fees	3,198,750	1,853,443	1,115,219	1,153,783	3,097,750	2,472,050	2,115,650	415,559
(iv) Other Income	32,443,944	43,938,970	30,985,518	12,190,619	32,314,474	50,206,655	52,966,030	(762,833)
	83,184,289	79,596,107	59,852,106	29,041,101	66,689,567	77,831,840	82,126,460	9,297,040

2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
(i) The number of properties owned by the Higurakgoda Pradeshiya Sabha for which the rates are charged in the year 2022 was 5968 and out of which, the rates of 2661 properties had remained outstanding.	As rate limits are not gazetted, the properties cannot be ceased.	Actions should be taken to gazette the administrative areas for rates without delay.

(ii)	Actions had not been taken to recover the industry tax of Rs.144,620 and business tax of Rs.265,495 pertaining to the years 2020 and 2021 .	Final notice letters have been sent for recovery of arrears and a sum of Rs.77,310 has been collected and arrangements will be made to take legal actions.	Arrears of revenue should be collected.
(b) Rents			
(i)	Actions had not been taken to recover the arrears of balance amounted to Rs. 7,187,119 out of 194 shops belonging to the Sabha as at 31 December of the year under review.	Actions will be taken to recover the arrears of rent	Arrears of revenue should be collected.
(ii)	The machine rental income receivable as at 31 December 2022 was Rs.6,825,440 and Rs.443,677 of that amount had to get recovered from members of the Sabha	Actions will be taken to recover the arrears.	Arrears of revenue should be collected
(iii)	Although the Pibidemu Polonnaruwa Project has been finished in the year 2021 there was a receivable amount of Rs.2,041,448 as machinery rentals.	The details have been given to the District Secretariat to recover the arrears.	Follow up actions should be carried out.
(c) Other Revenues			
	The stamp duty revenue receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2022 as per estimated values was Rs.11,474,589	Actions will be taken to recover the amount.	Arrears of revenue should be collected.

3. Operating Review

3.1 Performing of Tasks Assigned by the Act

The matters observed in respect of executing of functions that should have been performed by the Sabha such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

Audit Observation	Comments of the Sabha	Recommendation
Solid Waste Management		
Although all necessary arrangements and precautions shall be taken to ensure that garbage, stools or similar material is not disposed of in a nuisance manner in terms of Section 95 of the Pradeshiya Sabha Act No. 15 of 1987, the Sabha did not draw attention to the matter while disposing of the waste materials to a place in the Batu Oya Ratmale area.	The decomposable waste is collected at the Lankapura Organic Fertilizer Production Yard and non-decomposable waste is collected in the warehouse.	An environmentally friendly Solid Waste Management Programme should be implemented.

3.2 Identified Losses

Audit Observation	Comments of the Sabha	Recommendation
Even though 49 solar street lamps were purchased and installed in the respective Divisions on the request of the Pradeshiya Sabha Members, at a cost of Rs.2,303,000 under LDSP provision on 16 March 2022, it was observed that 18 street lamps valued to Rs.846,000 had been lost due to no implementation of security system.	The solar lamps were installed as per the demands and needs and there is not enough staff to provide their security.	Actions should be taken to prepare a programme for the safety of street lamps and recover the damages in terms of Financial Regulations.

3.3 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Actions had not been taken to recover the distress loan valued at Rs.556,520 given to two officers in 2022 and one officer in 2010 from the date of issue.	Actions have been taken to recover the loan and interest from March 2023.	To rectify existing internal control systems and if there has been a negligence or misconduct, arrangements should be made for that.
(b) Eight assets had not been re-valued and accounted for with the transition account for the year 2020, which was directed to follow the Sri Lanka Public Sector Accounting Standards for Local Authorities.	Actions will be taken to assess and account for relevant assets.	Assets should be properly accounted for.

3.4 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
The Higurakgoda New Public Market consisting of 92 shops was built and completed in 2019 under the Pibidemu Polonnaruwa project at a cost of Rs.27.15 million and handed over to the Pradeshiya Sabha had remained in idle for almost 03 years without being rented out even by the date of audit and by that, the loss of income to the Sabha on assessed rent only in relation to the year under review was Rs.12,631,600.	The distribution of shops has been suspended due to a litigation.	Arrangements should be made to seek legal advice and dispose of assets promptly.

**4. Accountability and Good Governance
Environmental Issues**

Audit Observation	Comments of the Sabha	Recommendation
Water treatment is not carried out in the water sources of the 05 water schemes owned by the Higurakgoda Pradeshiya Sabha and although one sample test was conducted on 26 April 2022 by the National Water Supply and Drainage Board, actions had not been taken to get recommendations on whether the water is suitable for drinking.	Actions will be taken to conduct a water sample tests promptly.	The water should be tested and consumers should be informed about the situation.