

## **Bandaragama Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Bandaragama 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, Comprehensive Income Statement, Statement of changes in net equity, 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 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 accompanying financial statements give a true and fair view of the financial position of the Bandaragama 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 Standards for Local Authorities.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified 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 skepticism 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**

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1. Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

Non-compliance with reference to relevant standard	Comment of the Sabha	Recommendation
The statement of cash flows had not been prepared in accordance with the Chapter No. 3.27 to 3.32 of the Standard.	Accepted. The correction will be made during the preparation of the financial statements of the year 2023.	The Cash flow statement should be prepared in accordance with Public Sector Accounting Standard for Local Government.

### 1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) An amount equivalent to annual depreciation related to capital grants received in previous years was not recognized in the income of the year under review.	Accepted. The error will be corrected	Capital grants should be properly accounted.
(b) Capital grants amounting to Rs.9,814,127 for the year under review were shown as capital expenditure grants recognized in surplus instead of being shown as capital grants under other comprehensive income.	-do-	Correct values should be applied while preparing final accounts.

## 1.7 Non-compliances

### Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below

Reference to Non – Compliance Laws, Rules, Regulation and Management Decisions	Comment of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987 (i) The Section 134(1).	New developed areas were declared and assessment tax was not collected after the year 2010.	The comment had not been given
		Action should be taken according to the Pradeshiya Sabha Act.

- (ii) Section 154      Although the Sabha should levy a tax of 01 percent of the sale value of the lands sold by auction in the area of the Sabha, contrary to that, the tax was levied on the basis of the assessed value of the land.      Acceptance.      -do-  
 Notifications have been made for recovery of 01% tax based on actual sale price. There are practical problems in levying 01% tax as land auction houses sell on instalment basis.
- (iii) Section 158(a).      As a last step to collect arrears of assessments, prohibition of asset have not been done until now.      Acceptance.      -do-  
 Due to the economic crisis in the country in 2022, this was not done. It has now been informed in writing and that the process of prohibition of the property is in progress after 30.06.2023.

## 2. Financial Review

### 2.1 Financial results

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. 68,792,224 as compares with the excess of revenue over recurrent expenditure amounting to Rs. 52,741,814 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 Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	6,686,200	7,594,881	6,663,491	931,390	6,880,860	6,865,705	5,379,839	1,485,865
(ii) Rent	9,818,600	5,628,435	4,504,119	1,124,316	10,005,150	5,165,464	2,728,864	2,436,599
(iii) License Fees	380,000	356,000	356,000	-	413,000	413,000	413,000	-
(iv) Other Revenue	112,563,300	38,691,300	17,883,032	20,808,268	112,138,960	8,869,020	118,729,212	2,278,768
	129,448,100	52,270,616	29,406,642	22,863,974	129,437,970	21,313,189	127,250,915	6,201,232

### 2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below

Audit Observation	Comment of the Sabha	Recommendation
Although the number of assessment units identified in the council's area is 6,916, however only 4,748 units have been assessed and 2,168 units have not been collected.	As at 31.05.2023, assessment has been collected on 495 units from the arrears of assessment units Further 1,673 more units should be charged.	Arrangements should be made to collect the arrears of revenue as soon as possible.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The conformation had not been provide for the purchase of 10 ABC cubes value Rs.195,000 as emergency purchases for the construction of 04 roads in the year under review.	The purchased ABC was used for the development of several roads on which Katina Pinkam travels as per the request of the Members.	Materials purchased should be properly documented.
(b) Before purchasing the raw materials, a plan for the maintenance of roads should be prepared and approved, however without this, 80 barrels of colas valued at Rs. 2,851,200 and 40 cubes of chip stone valued at Rs. 780,000 were purchased during the year under review.	The repairing of Roads damaged by the Water Supply Board for laying water pipes after getting Sabha approval were delayed due to Corona. According to the road details given by the sub office, the roads were restored and will be done according to a plan in the future	Roads to be repaired should be identified and procured according to a plan.

### 3.2 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) The amounts of allocated roads in the land that was divided and auctioned from the year 2019 to the year 2022, was not calculated and entered in the road register and the road register was not updated after the year 2018.	The road register is currently being updated by measuring the roads	Road registers should be maintained up to date.
(b) According to the Section 10 of the Ordinance No. 57 of 1946 on Public Cemeteries and Private Cemeteries, fence boundaries were to be prepared for the protection of cemeteries, however the fence boundaries of none of the	Since the ownership of these lands belongs to the Divisional Secretary, the boundaries of the protective fence cannot be	The owner ship of the lands should be taken over and protective fences should be build.

cemeteries owned by the council had not been marked until the lands are prepared and the ownership of 25 cemeteries formally handed over. had not been transferred to the Sabha.

### 3.3 Procurement Management

Audit Observation	Comment of the Sabha	Recommendation
04 air conditioners were purchased for Rs. 977,497 before calling the quotation and the procurement department had not prepared a cost estimate for the purchase and the allocations were not made in the budget and also not included in the annual procurement plan.	Accepted. Purchased as required for service. The action will be taken according to a correct mechanism in the future.	Purchases should be made as per the annual procurement plan.

### 3.4 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
The loan balance of Rs.845,590 due from 11 deceased, vacated post, retired and interdiction employees had not been recovered by 30 May 2023.	The amount due from the retired female officer will be recovered from the retirement gratuity and the deceased and those who left the service have been informed in the year 2023 through letters.	Outstanding loan balances should be recovered as soon as possible.

## 4. Accountability and Good Governance

### Environmental Issues

Audit Observation	Comment of the Management	Recommendation
While Rs.7,842,000 was paid for the year under review for giving the garbage collected in the Sabha area to a private company, the Sabha did not focus on reducing the cost of replacing a garbage yard, producing compost, and disposing of the collected garbage.	When the Millaniya Pradeshiya Sabha was established in 2018, the garbage yard was owned by the Millaniya Pradeshiya Sabha. Millaniya Pradeshiya Sabha refused to accept the garbage, so the garbage was given to an outside agency. Currently Millaniya Pradeshiya Sabha has agreed to receive ¾ tonne of compostable waste. The rest of the waste will be given to an external agency.	By providing household compost bins etc. attention should be paid to reduce the collection of perishable waste and to use the collected waste for compost production.