

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Palindanuwara 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 Palindanuwara 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 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	The loss was understated by Rs.3,929,369 according to the motor vehicle revaluation conducted during the year under review.	Accept. Corrections will be made when preparing the financial statements of the year 2023	Reserve account balance should be properly accounted.
(b)	Although the accumulated depreciation allocation to be credited to the motor vehicle revaluation account was Rs.3,655,619, the accumulated fund account was credited by journal entry No. 41 as the amount of Rs.1,918,231.	-do-	Revaluation should be properly accounted.
(c)	Although the capital grants for the year under review were Rs.7,662,087, it had been shown as Rs.143,929,356 in the comprehensive income statement.	Capital Grants will be properly recorded in the preparation of future financial statements	Correct values should be given while preparing the final accounts.

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.5,738,191 as compared with the excess of revenue over recurrent expenditure amounting to Rs.49,111,572 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	2,565,000	2,336,530	2,131,424	725,118	3,158,000	2,637,103	3,020,790	657,127	
(ii) Rent	7,060,000	4,681,882	4,681,882	957,759	7,627,000	5,605,712	6,788,276	1,354,246	
(iii) License Fees	425,000	212,000	212,000	111,000	1,811,000	302,200	1,222,951	113,000	
(iv) Other Revenue	428,000	498,100	412,100	128,812	93,254,000	-	56,845,027	17,960,695	
	10,478,000	7,728,512	7,437,406	1,922,689	105,850,000	8,545,015	67,877,044	20,085,068	

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
(a) The trade license fee deficit at the beginning of the year reviewed was Rs.113,000 and Rs.111,000 or 98 percent was not collected during the year.	Accept. Rs.3,000 have been recovered by April 2023, the remaining Rs.108,000 will be recovered in the future.	The arrears of income should be collected as soon as possible.
(b) The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities by 31 December 2022 were Rs.7,000,000 and stamp duty was Rs.12,000,000.	The court fines and stamp duty schedules for the year 2022 are currently being prepared.	Court fines and stamp duty should be remitted promptly.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
According to Condition Number 21 of the lease agreement related to Makeliella Viewing Centre, the lessee shall terminate the agreement if the money is not paid on the due date or before that date the following 03 months during the lease period. However, despite 06 months of rent arrears from July to December of the year under review, the Sabha had not terminated the agreement and leased the asset to another party.	Accepted. A complaint has been filed at Baduraliya Police Station on 23.05.2023 for legal recovery of money.	The action should be done according to the lease agreement.

3.2 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Rs.1,442,239 receivables from the year 2020 were write off from accounts, receivable without approval, however the approval was not received until May 2023.	It has been referred to the Local Government Commissioner to get approval for the write off of these revenues due to the periods when the country was closed due to the Corona situation. A reminder has also been sent on 17.05.2023.	Write off of income should not be done without prior approval.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) 04 lands owned at establishment on 15 April 2006 of Palindanuvara Pradeshiya Sabha were not identified, at the end of the year under review.	Accept the 04 lands that were owned at the time of establishment on 15.04.2006 of the Sabha have not been identified. The inquiries have been made on 27.02.2023 from Palindanuvara Divisional Secretary to provide details about these lands.	Land owned by the Sabha should be identified.
(b) According to Section 10 of the Public Cemeteries and Private Cemeteries Ordinance No. 57 of 1946, security fences should be prepared for the protection of cemeteries, however none of the cemeteries owned by the Sabha had not fenced boundaries.	After measuring and taking over the cemetery, the board will be displayed as a land owned by the Sabha.	Action should be taken according to the Ordinance.
(c) The ownership of 30 cemeteries under Palindanuvara Pradeshiya Sabha administration was not transferred to the Sabha.	Accepted. Since the land is owned by the Divisional Secretary, recommendations will be taken and measures will be taken in the future.	The ownership of the cemeteries should be taken over by the Sabha immediately.

3.4 Deficiencies of Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) The width of the concrete strip constructed on both sides of the road under item Number 2, 2.1, 2.2, 2.3, 2.4 of the Bills of Quantities of the Velgamgoda road development contract should be 05 inches wide and 12 inches thick, although it was observed, its size is only 5 x 4.5 inches. However, Rs.30,254 was paid on 14 October 2022 for the same, despite the Sabha's assurance that the construction work	Although the concrete slab was not in the required quantity, payment reports were submitted for the work done as the bills were to be sent by 31.12.2022. Concrete could not be re-applied due to lack of cement. Payments have been made on the records of PRDA for the foundation. Because of the deficiencies, the	The road base should be prepared as per the prescribed standards.

will not be paid until the road base is corrected and ridges are properly applied.

retention money has not yet been released yet.

(b) 03 roads to be developed with concrete blocks and stones were not done required standard and the total value of the works that had not been completed by the societies was Rs.91,856.

The Ministry of Highways had prepared a single estimate for the entire island. The length and width of the Sabha road will be updated once given. The Sabha cannot change it. The road ends are concreted to a height of 12 inches wherever possible. The amount of height varies due to the rocks on both sides of the road. The relevant societies have been informed about not working according to the agreement.

The road development works should be carried out as per agreements and estimates and accurate measurements should be taken while making payments.

3.5 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
Although there were only 03 vacancies in the positions of field workers and health workers, then secretary had hired 32 workers from the year 2019, outside of the approved staff, and without the approval of the Western Provincial Local Government Commissioner.	These workers are employed for the necessary work of the Sabha.	Recruitment of workers without prior approval should not be done and an investigation should be conducted about the matter.