

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Panadura Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out 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 Pradesiya Sabhas Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Panadura Pradeshiya Sabha as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Authorities.

1.2 Basis for Qualified Opinion

A qualified opinion on financial statements will be expressed based 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 Sri Lanka Public Sector Accounting Standards for Local Government Authorities, and for such internal control as management determines 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 Sub-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 to be prepared of the Pradeshiya Sabha.

1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Pradeshiya Sabha's 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 includes specific provisions for following requirements.

- The financial statements of the Urban Council are consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned 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 Deviating from Sri Lanka Public Sector Accounting Standards for Local Authorities.

Audit Observation	Comment of the Sabha	Recommendation
(a) Although lands and buildings should be separately accounted for in terms of Section 6.3 of the Standard, lands and buildings worth Rs. 266,798,885 that existed as at the end of the year under review had not been accounted for separately.	Lands and buildings will be separately identified by a new assessment during the year of accounts 2023.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.
(b) In terms of Section 6.15 of the above Standard, although assets should be depreciated so as to consume their future economic benefits, and a method of depreciation should be selected in a manner reflecting the expected depreciation pattern, property, plant, and equipment had not been depreciated during the year under review.	After the revaluation of all assets, depreciations will be recognized in the year 2023 and presented by the final accounts.	-Do-

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Provisions for the audit fees payable for the year 2022 had not been made.	After recognizing the provision for audit fees pertaining to the year 2022, it will be presented by the final account.	Accuracy should be ensured in the accounting process.
(b) Stamp duty debtors of the year 2021 amounting to Rs.1,000,000 had been understated in the accounts.	This matter will be noted down to correct in the ensuing year.	-Do-
(c) Fixed deposit interests receivable for the year under review had not been accounted for.	The receivable fixed deposit interest income will be correctly adjusted and presented in the final account.	-Do-

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to not furnishing the required information, 02 items of account valued at Rs. 6,920,625 could not be satisfactorily examined in audit.	Identified balances will be presented in the submission of final accounts for the year 2023.	Documentary evidence that confirms the account balances should be furnished.

1.6.4 Unreconciled Accounts

Audit Observation	Comment of the Sabha	Recommendation
When comparing the balance related to 07 items of account shown in the financial statements with the relevant schedule, a difference of Rs. 549,759,346 was observed.	This matter will be corrected in the final account, 2023.	Balances in the financial statements should be tallied with the balances in the schedules.

1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
(a) Pradeshiya Sabha Act, No. 15 of 1987. Section 160	Properties had not been seized as the last resort to levy taxes.	Seizure of properties will be done in the future.	Action should be taken in accordance with the Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 104	The boat of the Keselwatta Sub-office that remained in the Diggala ferry had been misplaced and action had not been taken according to the referred financial regulation in respect of that matter.	The officers of the Sabha have taken necessary measures to safeguard the boat.	Action should be taken in accordance with Financial Regulations.
(ii) Financial Regulation 395 (a)	In terms of F.R.395, bank reconciliation statements had not been prepared for 04 current accounts of the Sabha.	Immediately after the preparation of reconciliation statements pertaining to these bank accounts, they will be submitted.	-Do-
(c) Assets Management Circular No.05/2020 dated 02 October 2020.	Twelve vehicles of the Sabha remained inoperative by 31 January 2023.	Not commented.	Circular should be adhered to.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the expenditure of the Sabha in excess of the recurrent revenue amounted to Rs. 5,923,009 as at 31 December 2022 as compared with the corresponding expenditure exceeding the recurrent revenue for the preceding year amounting to Rs. 95,803,562.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

Particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue presented relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			Total Arrears as at 31 December (Rs.)
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	
Rates and Taxes	31,334,126	31,593,211	17,290,160	14,363,051	35,273,461	32,055,123	33,471,645	33,589,942
Rents	406,000	532,200	395,200	137,000	6,975,550	2,287,200	16,654,636	5,284,163
License Fees	512,000	494,000	479,000	15,000	6,440,000	544,000	1,586,619	64,000
Other Revenue	2,500,000	9,960,000	9,960,000	-	112,915,000	12,915,000	151,223,389	107,025,408
	34,752,126	42,579,411	28,124,360	14,515,051	161,604,011	147,801,323	202,936,289	145,963,513

2.2.2 Performance in the Collection of Revenue

Observations relating to the performance in collecting revenue of the Sabha are given below.

Audit Observation	Comment of the Sabha	Recommendation
(a) The total rate income that remained outstanding as at 01 January 2022 was Rs. 33,589,943 and it was Rs. 7,038,031 as at 31 December 2022.	A certain amount of the outstanding revenue has been recovered.	Revenue in arrears should be recovered expeditiously.
(b) Although rates should be assessed once every 05 years, 02 sub-offices had not carried out the assessment of rate from the year 2007, while the Wadduwa sub-office had not so carried out the rate assessment from the year 2014.	Not commented.	Rates should be assessed.
(c) The rental income of the business places that remained receivable at the beginning of	This amount includes the arrears of the Keselwatta Police Station. This matter has been informed to the	Revenue in arrears should be recovered expeditiously.

the year under review amounted to Rs. 4,652,163 out of which, Rs. 4,301,163 or 92 per cent had not been recovered during the year under review.

Director of the Property Management Division. However, payments have not been made as yet and the Senior Superintendent of Police has informed that the arrears will not be paid.

3. Operating Review

3.1 Execution of Functions Entrusted by Act

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas Act , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

Audit Observation	Comment of the Sabha	Recommendation	
(a) Procurement Plan	A detailed procurement plan had not been prepared for each item and equipment to be procured and a sum of Rs.42 million had been allocated from the annual budget for procurement activities.	A detailed procurement plan will be prepared and presented in the future.	A procurement plan should be prepared.
(b) Abandoned Tasks	Under the project implemented to construct a common canal on the Government Land, which is adjutant to the Kajugahawatta land on the Dibbedda Pugngnananda Mawatha, to drain rainwater in order to address this issue that had persisted from the year 1998, only the section of the canal crossing a private land had been contracted at a cost of Rs. 253,577 and subsequently, the project had been abandoned halfway. As a result, the road could not be used due to retaining rainwater on the road without draining in addition to the damage caused to the private land due to flowing rainwater to the land from a canal constructed on the road.	Necessary steps are being taken to acquire the relevant portion of land.	Action should be taken to complete the project.

(c) Waste Management

The Sabha had paid Rs. 4,135,538 to the Mihisaru Compost Yard at Pohorawatta, Kalutara for segregated 400 loads of waste and Rs. 11,988,000 to the G.F.C. Machinery private company for 418 loads of waste. Accordingly, cost of Rs. 10,338 had been spent for the disposal of 01 load of segregated waste to the Mihisaru Waste yard, and Rs. 26,791 had been spent to dispose 01 load of waste to the G.F.C. Machinery company. Accordingly, the Sabha could have saved Rs. 8,131,354 if the total segregated quantity of waste had been disposed of to the Mihisaru Compost Yard.

This situation has arisen due to the lack of a tripper and necessary measures have been taken to prevent the supply of degradable waste to the private sector.

Efficient waste disposal method should be put in place.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
According to the instructions in the Assets Management Circular No.4/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media, it has been informed by the Letter No. LGD/10A/4/20.8/2019 dated 01 February 2021 of the Assistant Commissioner of Local Government that all the fixed assets of the institute should be revalued and accounted for in the submission of financial statements of the year 2020. Nevertheless, the Sabha had not revalued certain assets even in the year 2022. Further, except for the motor vehicle, other assets had not been depreciated.	The revaluation of vehicles were carried out in the year 2022. As there was not enough time to revalue the other assets, action will be taken to revalue and depreciate them in the year 2023.	Action should be taken in accordance with circulars.

3.3 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
(a) Although the employees' transfers should be done in	Due to the economic and political instability that prevailed in the	Action should be taken in accordance with the

terms of Section 3.8 of Chapter II of the Establishments Code, it was observed that among the employees in MN 01 salary scale and above salary scales who were in the service by the end of the year 2022, there were 16 officers who had not received transfers for more than a period of 07 years. country from the year 2021, annual transfers in the Chief Secretariat (WP) were not implemented. Establishments Code.

(b) Employees' Loan

An amount of Rs. 911,754 which was due from 12 employees who had retired, vacated the service and were transferred from the year 2008 to 2022 had not been recovered even by December 2022. Employee loan balances will be corrected with the schedule and adjusted to the final account. Action should be taken to recover the outstanding loan balances.