

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Galenbindunuwewa 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 assets/ 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Galenbindunuwewa 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

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 Sri Lanka Public Sector Accounting Standard for Local Authorities, 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 and Regulatory Requirements

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

- 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.
- The financial statements presented includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The value of culverts, bridges and water systems amounting to Rs.14,017,490 which could not be accounted for in the year 2021, had been credited to the accumulated fund instead of being credited to the capital grant account in the year under review.	Accepted.	The capital grants of the year under review should be correctly credited to the account.
(b) The value of Rs.2,524,650 for the construction projects of a water treatment unit and a public well at Pilisaru Center, which could not be accounted for in the year 2021, had been shown under culverts and bridges.	- Do -	Should be accounted under the prescribed assets.
(c) The value of Rs.14,000,000 water bowser received as a donation in the year under review had not been accounted.	- Do -	Assets should be identified and accounted.
(d) Although the capital grant receipts in the year under review were Rs.16,029,847 it was recorded as Rs.10,422,698 in the comprehensive income statement, therefore it had been understated by Rs.5,607,140.	- Do -	The correct value should be accounted for.

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| (e) Although capital expenditure grants recognized in the surplus/ deficiency during year under review were Rs.2,509,894 it was recorded as Rs.2,864,533 under other comprehensive income in the statement of comprehensive income, therefore it had been overstated. | - Do - | The correct value should be accounted for. |
| (f) The amount of Rs.2,509,594 received from the Local Government Department for the year under review had not been shown as non-recurring grants in the comprehensive income statement. | - Do - | Non-recurring grants should be properly identified. |
| (g) The value of culverts construction related to 04 projects implemented in the year 2021 amounting to Rs.2,587,404 had not been accounted. | - Do - | Capital grants and property, plants and equipment should be correctly identified. |
| (h) Capital Expenditure Allowances not included in Surplus or Deficiency in Statement of Change in Net Assets/ Equity for the year under review of Rs.8,392,851 corrections of capital expenditure allowances of Rs.14,017,490 for the previous period and recognition of income of Rs.25,069,894 for the year under review had not been reported. | - Do - | The correct value should be accounted. |
| (i) The cash in hand amount of the project had been understated by Rs.40,113. | - Do - | The correct value should be accounted. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) Although, the reimbursement of salaries and allowances was Rs.22,110,010 in the comprehensive income statement of the year under review, but it was Rs.21,928,304 in the salary reimbursement sheets of the	Accepted.	Schedules should be compared with corresponding records.

Local Government Department, therefore, there was a difference of Rs.187,706.

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| (b) Although, the vehicle rental income was Rs.1,945,160 in the comprehensive income statement, but that income was Rs.1,673,680 according to the schedule, therefore, there was a difference of Rs.291,480. | Accepted. | Schedules should be compared with corresponding records. |
| (c) Although, the shop rent was Rs.419,995 in the statement of assets and liabilities, but it was Rs.409,995 according to correspondence schedule, therefore, there was a difference of Rs.10,000. | Accepted. | Schedules should be compared with corresponding records. |

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
(a) The calculation of the decrease in receivables of Rs.21,574,039 and the increase in payables of Rs.16,521,495 mentioned as adjustments in the cash flow statement of the year under review and the details of the removal of debtors and creditors of the capital expenditure included in the respective debtor and creditor values had not been presented.	Accepted.	Confirmation should be submitted.
(b) The details of calculation of Rs.17,961,710 stated as errors in previous period under accumulated surplus in the statement of change in net assets/equity for the year under review had not been submitted for audit.	Accepted.	Confirmation should be submitted.
(c) Due to the lack of sufficient evidence to confirm 10 account balances of Rs.11,895,596 mentioned in the	Accepted.	Confirmation should be submitted.

financial statements of the year under review, it was not possible to satisfactorily inspect them during the audit.

- (d) The details of culverts, bridges and concrete roads with a value of Rs.5,111,926 constructed in the year 2020 mentioned in the statement of assets and liabilities of the year under review had not been submitted. Accepted. Confirmation should be submitted.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.25,424,762 as compared with excess of expenditure over revenue amounted to Rs.27,545,544 in the preceding year.

2.2 Revenue Administration

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

Information 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 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	2,656,827	2,702,644	2,922,213	5,463,776	2,516,727	2,859,504	1,474,449	5,683,345
(ii) Rent	10,142,350	6,471,310	5,473,490	1,729,805	2,404,000	1,913,050	1,462,140	731,985
(iii) License Fees	820,000	779,250	576,500	376,500	912,000	969,505	795,755	173,750
(iv) Other revenue	17,494,300	10,233,633	14,477,380	4,169,197	23,879,750	17,862,453	9,840,853	8,412,944
	31,113,477	20,186,837	23,449,583	11,739,278	29,712,477	23,604,512	13,573,197	15,002,024

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
Arrears of rates and taxes of Rs.5,107,976 had not been collected and business tax of Rs.355,800 had not been collected from 173 units as at 31 December of the year under review.	Accepted.	Actions should be taken to recover.
(b) Rent		
(i) Rent amounting to Rs.1,066,805 had not been collected for a period of 1-2 years as at 31 December of the year under review.	- Do -	- Do -
(ii) In the years 2020 and 2021, Rs.663,000 due from 11 parties for renting the council's machines had not been collected.	- Do -	- Do -
(c) License Fees		
The trade license income of Rs.376,500 had not been collected since 01-02 years as at 31 December of the year under review.	- Do -	- Do -
(d) Court fines and stamp duty		
Court fines of Rs.600,000 and stamp duty of Rs.2,160,150 due from the Chief Secretary of the Provincial Council and other authorities by 31 December 2022 have not been collected.	- Do -	Should be brought.

3. Operational Review

Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) According to the letter No. NCP/LG/DE/04/04/2020 dated 28 March 2020 of the Local Government Commissioner in North Central Province, although the machinery owned by the sabha should not be given for rent on loan basis, 03 machinery had given on loan basis in the year 2022, and Rs.663,000 had not been received as at 31 December of the year under review.	Accepted.	Actions should be taken to recover.
(b) The stamp duty amounting to Rs.424,198 had not been paid and settled, including a balance of Rs.350,378 which was more than 6 years old as at 31 December of the year under review	- Do -	- Do -
(c) During the year under review, Any survey had not been conducted for revenue generation in the council area and therefore the revenue to be collected in terms of billboard industry and telephone transmission towers had not been identified.	- Do -	Revenue should be recognized and collected.
(d) The income that could have been received by the council had been lost due to renting of assets only nominally without council owned slaughterhouses, meat shops and fish farms.	- Do -	Renting should not be done without physical assets.
(e) 10 shops had not been taken on rent by any party during the year under review because 31 shops owned by the council had to be renovated and not	- Do -	These shops should be renovated and given on rent.

made attractive for trading since many years.

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| (f) Control systems such as fingerprint machines and CCTV camera systems had not been placed to verify the arrival, departure and stay of officers working in the council. | - Do - | New technologies should be used. |
| (g) In the year under review, the values of the equipment received as donations from the Local Government Department had not been recognized and entered in the inventory register. | - Do - | Inventory registers should be maintained regularly. |