

Ibbagamuwa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ibbagamuwa Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, statement of changes in 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 financial statements give a true and fair view of the financial position of the Ibbagamuwa Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities

1.2 Basis for Qualified Opinion

I express qualified opinion 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 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 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) Although the value of 04 projects completed by the Sabha funds in the year under review was Rs.1,795,636, because a sum of Rs.1,685,221 was accounted for as creditors, the creditors had been understated by Rs.110,415 in the year under review.	This will be corrected in the next year.	It should be accurately accounted for.
(b) The creditors of Walawwatta 06th Lane Concreting Project executed by the Sabha funds during the year under review had been understated by Rs. 399,998 .	-do-	-do-

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| (c) | Despite 30 industries valued at Rs. 25,497,023 had not implemented under the Rural Road Development Program which was mentioned under preceding year's accounting deficiencies, actions had not been taken to correct the deficiency occurred due to accounting of those industrial debtors and creditors. | -do- | -do- |
| (d) | Debtors and Creditors of Compost Production Building Construction Project under the provisions of the State Ministry of Provincial Councils and Local Government had been overstated by Rs. 173,544. | -do- | -do- |
| (e) | Due to accounting without verification of creditors and debtors as at 31 December of the year under review, the creditors and debtors had been overstated by Rs. 28,054,179 . | -do- | -do- |
| (f) | The gully bowser of the Sabha Valued at Rs.9,878,350 had not been accounted for as at 31 December of the year under review. | -do- | -do- |
| (g) | The value of 02 plots of land received by the Sabha for public purposes from land auctions during the year under review amounted to Rs. 11,270,750 had not been accounted for. | -do- | -do- |

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| (h) | Three LED monitors and 03 Canon printers valued at Rs. 316,800 had not been accounted for as assets during the year under review. | -do- | -do- |
| (i) | Library books purchased during the year under review amounting to Rs.600,000 had not been capitalized. | Information of 05 libraries will be included in the Board of Survey 2023 . | -do- |

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs. 1,333,072 between the balances related to 02 accounting items totalling to Rs. 4,485,511 shown in the financial statements as at 31 December of the year under review and the balances shown in the Board of Survey Reports.	Actions will be taken to correct in the next year.	Necessary actions should be taken to find out the reasons for the difference .

1.7 Non –compliances

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
Financial Regulations of the Democratic Socialist Republic of Sri Lanka - F.R. 104 (3)	Actions had not been taken in terms of the Financial Regulations in respect of the accident occurred for the JCB machine of the Sabha on 13 October 2022	If such an accident occurs in the future, steps will be taken to make arrangements in terms of the Financial Regulations.	Actions should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2022 was Rs. 33,796,101 and the income exceeding the recurrent expenditure of the preceding year was Rs. 37,232,056.

2.2 Financial Control

Audit Observation	Comments of the Sabha	Recommendation
Actions had not been taken to invest in a source of investment like Fixed Deposits that can receive high returns due to retention of an average balance of more than Rs.15 million during the year under review in the General Bank Account of the Sabha.	The approval of the Sabha Meeting was not received at that time, to deposit the money of the Sabha as fixed deposits and the approval of the Decision and Management Committee has been received to deposit an amount as a fixed deposit at present.	If there is excess money in the Sabha, it should be invested in a safe source that will give the Sabha higher returns.

2.2 Revenue Administration

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

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 Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December
	Rs. 000'	Rs 000'	Rs 000'	Rs 000'	Rs 000'	Rs 000'	Rs 000'	Rs 000'
Rates and Taxes	4,024	4,024	5,114	6,376	4,024	3,745	1,614	9,597
Rents	11,300	11,783	12,856	3,396	12,300	9,127	6,685	4,850
License Fees	2,200	2,179	2,179	-	1,235	-	-	-
Other Income	11,315	9,550	67,046	28,652	158,438	140,252	76,438	149,590
Total	28,839	27,536	87,195	38,424	175,997	153,124	84,737	164,037

2.2.2 Revenue Collection Performance

Audit Observation	Comments of the Sabha	Recommendation
Rates and Taxes		
(a) Actions should be taken to recover an amount of Rs.4,309,193 out of the arrears of rates amounted to Rs.6,960,588 at the beginning of the year under review and an amount of Rs.1,772,362 out of billing of Rs.4,024,359 as at December 31 of the year under review.	Actions will be taken to recover arrears of rates.	The arrears should be recovered promptly as per the provisions of the Act.
(b) Actions had not been taken to recover the arrears of Rs. 802,518 as at 31 December of the year under review.	Because only the name has been mentioned in the Acre Tax Register the property cannot be identified.	-do-

Rents

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| <p>(a) Although Malsiripura shops had been tendered in the year 2013, actions had not been taken to assess the shops and to collect rent even by the year 2019. The Valuation Department had assessed the monthly rent of the shops in the year 2019 and out of the 10 shops, the arrears of Rs. 3,763,596 for the year 2022 had to be collected.</p> | <p>Actions will be taken to submit to the Commissioner of North West Local Government and take further action based on his advice.</p> | <p>If tenders have been called and leased out, the lease rent should be recovered.</p> |
| <p>(b) A balance of Rs.1,711,276 had to be recovered from 24 units of assets during the period from 1996 to 2013 through leasing out assets.</p> | <p>Out of the 24 properties to be recovered through leasing of assets, cases have been filed for 2 properties and a sum of Rs. 16,100 amount to be received from No. 02 Fish Store Hiripitiya has been recovered by now.</p> | <p>Actions should be taken to recover the money receivable from leasing out the assets.</p> |

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
<p>Eleven land and buildings included in Register of Fixed Assets had not been accounted for due to failure of assessment even by the year under review.</p>	<p>The assessment of the relevant property will be done and entered when the final account is preparing as at 31 December 2023 .</p>	<p>Actions should be taken to assess and account for.</p>

3.2 Abandoned Projects

Audit Observation	Comments of the Sabha	Recommendation
Seventy three water tanks of 5,000 litre and 2,000 litre capacity had been established and handed over to the Sabha as an alternative source of water for 12 Grama Niladhari Divisions in the Sabha administrative area with the full participation of the National Water Supply and Drainage Board through the Local Government Improvement Project (Puraneguma) funded by the Asian Development Bank. The installation of these water tanks was done in the year 2018 and the 03 water bowsers needed to distribute water were provided in the year 2021. The Project had been abandoned without achieving the desired outcome from this Project because of the water consumers have taken measures to fullfil the water requirement from other water supply sources.	Considering the need for drinking water, these investments are not 100% effective.	A feasibility study should be done before starting a project and efforts should be made to utilize water tanks effectively.

3.3 Solid Waste Management

Audit Observation	Comments of the Sabha	Recommendation
Although a capital expenditure of Rs.3,752,571 and a recurrent expenditure of Rs.4,677,317 had been incurred for construction of compost yard and garbage collection for solid waste management during the year under review the Sabha	The agreement relating to the contract has been cancelled and necessary actions are being carried out to call for tenders to commence the construction works again.	Biodegradable and non-biodegradable waste should be properly managed.

had failed to complete the Project. Accordingly, compost is not produced from the collected waste and buried at the Solid Waste Management Centre area and the collected plastic, cardboard, polythene had been stored in the garbage yard temporarily constructed on the site of the Solid Waste Management Centre.

3.4 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
Although 1% of the sales value of 06 plots of land should be collected from the Sabha during the development and sale of land in the Sabha area, a sum of Rs. 1,508,083 had lost to the Sabha due to assessment of value lower than the sale value.	That the relevant auction agencies have been informed to recover the arrears of taxes receivable from auction agencies.	A tax of 1% shall be levied on the sale value.

3.5 Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
Even though the Sabha had entered into agreement of Rs.15,494,698 for 29 development projects by Sabha fund allocation during the year under review, 03 projects valued at Rs. 1,562,170 had not been completed.	The approval has been received for 29 development projects by Sabha funds of Ibbagamuwa Pradeshiya Sabha during the year under review .	The contracted projects should be completed within the due period.

4. Accountability and Good Governance

Annual Action Plan

Audit Observation	Comments of the Sabha	Recommendation
In preparation of Industrial Sector Action Plan by the Sabha, the Action Plan had been prepared by identifying the actual activities related to the projects implemented during the year and prepare cost estimates and accordingly estimate the provision for nominal activities without preparing plans. Therefore, the Action Plan could not be used for all functions performed by the Sabha as a management tool.	As the Annual Action Plan 2022 has been prepared before the Budget, the development proposals received from the Members of Parliament during the preparation of the Budget have not been included in the Annual Plan for the year 2022. Therefore, the activities related to the projects implemented during the year were not included in the Annual Plan.	Identify the actual activities of the industrial sector and the expenditure estimates should be prepared and the Action Plan should be prepared.