

Valikamam South Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam South 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 performance, statement of changes in equity, cash flow statement for the year then ended 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 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 Valikamam South 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.

1.2 Basis for Qualified Opinion

I expressed qualified opinion 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 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.

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 include specific provisions for 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 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	Comment of the Sabha	Recommendation
(a)	04 construction and renovation works in the form of capital amounting to Rs.1,962,293 had been accounted as recurrent expenditure instead of accounting as fixed assets.	It will be corrected in the financial statements of the year 2023	Accounts should be prepared properly.
(b)	A sum of Rs. 1,327,589 recovered as fine had been credited to misscellaneous deposits instead of being shown as income.	Immediate action will be taken for this purpose for the final decision of the World Bank Committee.	Actions should be taken to show it as income.

1.6.2 Lack of documentary evidences for audit

Audit Observation	Comment of the Sabha	Recommendation
Although 10 lands and buildings of 1,170,046 had been shown in the financial statements, no documents had been presented to prove that they are owned by the council.	Actions will be taken to obtain the relevant documents.	The ownership of assets owned by the council should be settled.

2. Financial Review

2.1 Financial Result

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. 129,417,066 as compared with the excess of revenue over recurrent expenditure amounted to Rs.133,517,598 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, 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	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	15,460,000	13,682,074	17,696,474	27,285,226	14,811,000	14,761,276	12,330,097	28,868,446
Rent	56,801,600	53,317,529	53,125,383	911,951	56,622,800	57,047,485	40,764,826	1,663,012
License Fees	2,945,000	3,307,303	3,307,303	-	2,875,000	2,814,083	2,841,583	-
Other revenue	<u>45,387,000</u>	<u>96,305,940</u>	<u>96,305,940</u>	<u>14,717,742</u>	<u>53,568,000</u>	<u>82,101,384</u>	<u>77,887,425</u>	<u>37,013,233</u>
	<u>120,593,600</u>	<u>166,612,846</u>	<u>170,435,100</u>	<u>42,914,919</u>	<u>127,876,800</u>	<u>156,724,228</u>	<u>133,823,931</u>	<u>67,544,691</u>

2.2.2 Performance in Revenue Collection

Audit Observation

Arrears of rates and taxes amounting to Rs.27,285,226 for the period between 02 years and 05 years and arrears of lease amounting to Rs.6,370,313 for more than a year had not been recovered. Also, There was a stamp duty balance for more than 10 years amounting to Rs. 7,951,852.

Comment of the Sabha

A mobile service had been launched in January 2023 to recover rates and taxes and actions will be taken to recover arrears of rent and stamp duty.

Recommendation

The arrears of revenue should be recovered immediately.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

An advance of Rs.600,000 given for garbage disposal 02 years ago has not been recovered up to now.

Comment of the Sabha

The accounts will be corrected after the investigation decision.

Recommendation

The relevant advance should be recovered immediately.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Due to the failure to carry out the annual assessment of 8,385 properties belonging to the council's Elalai sub office jurisdiction, the receivable rates and taxes thereon could not be recovered.	The property had been sent to the Valuation Department for re-evaluation. After obtaining approval, the arates and taxes will be recovered.	Assets should be assessed and disclosed in accounts at regular intervals and actions should be taken to recover rates and taxes for those properties.
(b) An annual income of Rs.536,020 had been lost due to the idleness of 02 stalls of the sabha.	Although the bids had been called for the stalls, they had not been leased out, as no one applied. In the future, the two stalls will be divided and leased.	Assets should not be left unused.
(c) The value of 02 vehicles owned by the council had not been assessed and accounted for.	The value is assessed and disclosed as fixed assets in the financial statements.	The value of the vehicles should be assessed and disclosed in the financial statements.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) No effective measures had been taken up to now to transfer the land where 06 cemeteries of the sabha are located to the sabha and to assess its value and show it as fixed assets.	Action is being taken to obtain approval.	Ownership of assets should be settled.
(b) Action had not been taken to assess the value of 03 lands owned by the sabha in the year under review.	The values will be disclosed in the financial statements of the year 2023 once assessed by the Valuation Department.	Due attention should be paid to the land revaluation and appropriate measures should be taken promptly.