

Seruwila Pradeshiya - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Seruwila Pradeshiya Sabha including including the financial statements for the year ended 31 December 2022 comprising the Statement of Statement of Balance sheet as at 31 December 2022, Income and Expenditure Account, , 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 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 Seruwila 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 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 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	Comments of the Sabha	Recommendati on
(a) The amount of Rs.1,850,163 received in relation to the year 2021 for the PT(I) project under the LDSP project was adjusted as capital income in the year under review.	Accepted. The transactions related to the period are correctly recorded in a way that such situations do not arise.	Financial statements should be prepared accurately.
(b) No provision was made in the accounts for the audit fees of Rs.45,900 and Rs.49,200 for the years 2020 and 2021 respectively.	The accounts will be prepared correctly in the future.	- Do -
(c) The opening and closing balances in the current account of People's Bank as on December 31 of the year under review were Rs.888,448 and Rs.1,529,948 respectively, and it had not been adjusted while preparing the cash flow statement.	In preparing the cash flow statements, the relevant balances have been omitted by mistake.	- Do -
(d) The surplus of Rs.4,964,815 in the year under review was credited to the account of contribution from income to capital application.	This will be corrected by a journal entry when the accounts are prepared in the coming year.	- Do -
(e) The stamp duty of Rs.570,832 for the period of January to June 2021 was accounted as income in the year under review.	- Do -	- Do -
(f) Rs.413,800 due for the period from July to December 2021 and outstanding stamp duty due for the year 2022 were not accounted for.	- Do -	- Do -
(g) Fixed deposit interest income receivable for the year under review had been understated by Rs.9,346,913.	In this regard, renewal notices will be obtained from Serunuwara People's Bank, the correct interest will be calculated and accounted for.	- Do -
(h) As on December 31 of the year under review, the amount of salary reimbursement and member allowances amounting to Rs.1,647,961 had not been accounted for.	By omission it has been missed and will be corrected next year.	- Do -
(i) In December of the previous year, the salary reimbursement and member allowance amount of Rs.1,412,520 had been accounted as a receipt of the current year.	- Do -	- Do -

1.6.2 Un-reconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.28,775 between the total of 04 account balances and the totals of the corresponding documents as on 31st December of the year under review.	No answers	Records should be maintained properly.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
05 account balances worth Rs.145,058,911 as on 31st December of the year under review could not be satisfactorily verified during the audit due to non-submission of ownership confirmation documents, updated fixed deposit certificates and stock valuation reports.	It will be corrected in the future.	Accurate information related to account subjects should be submitted.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc...

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows.

Reference to Laws, Rules Regulations etc...	Non-compliance	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
(i) Section 24	The Sabha had inventoried the roads constructed but all the roads had not been gazetted.	Necessary arrangements will be made for gazetting the roads in the future.	All existing roads should be inventoried and gazetted.
(ii) Section 134	Developed areas within the Sabha area of authority were not identified and assessment and taxes levied.	Necessary arrangements will be made for gazetting the assessment tax in the future.	Section 134 of the Pradeshiya Sabha Act should be followed.
(b) Pradeshiya Sabha (Finance and Administration) Rules, 1988			
(i) Rule 143	Refundable deposits amounting to Rs.6,564,471	The necessary steps will be taken to classify and	It should be complied with the Pradeshiya

were not classified and accounted for accordingly. account correctly in the future. Sabha rules.

- (ii) Rule 218 The land and buildings costing Rs.122,078,290 were not surveyed once every year. In the future, steps will be taken accordingly. It should be complied with the Pradeshiya Sabha rules.
- (c) Financial Regulations 1645 and 1646 of the Democratic Socialist Republic of Sri Lanka The running charts and monthly summaries of 08 vehicles were not submitted for audit. Steps will be taken as required in the future. Financial regulations should be followed

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.2,803,721 as against the excess of recurrent expenditure over revenue amounted to Rs. 4,561,496 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 chairman 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 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
Rent	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
	5,346	3,819	2,956	2,064	5,231	1,015	1,015	1,161
License Fees	695	706	706	-	645	494	494	-
Other revenue	14,163	12,757	11,041	1,716	13,603	10,420	7,177	3,243
Total	20,204	17,282	14,703	3,780	19,479	11,929	8,686	4,404

2.2.2 Performance in Revenue Collection

Audit Observation

As on December 31, 2022, there was arrears of rental income of Rs.863,333, of which the arrears of rental income for the period 2011 to 2020 was Rs.1,150,031.

Comments of the Sabha

That the necessary steps will be taken to recover the relevant rent in arrears.

Recommendation

A formal arrangement should be made to recover the arrears and the arrears should be collected promptly.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
The value of 09 fixed assets received as donations had not been assessed and accounted for.	It will be corrected in the future	It should be assessed and accounted for.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
(a) 11 vehicles worth Rs. 9,223,824 belonging to the Pradeshiya Sabha are idle and appropriate measures have not been taken relating to those vehicles.	That the Sabha does not have enough funds for the repair of vehicles and that the necessary arrangements will be made in the future.	Attention should be paid to immediate repairs or taking appropriate action.
(b) The LED billboard installed by the local council in the year 2014 at a cost of Rs.938,000 from the council fund for advertisement, remained inactive since March 14, 2014 and was not repaired and put to use in the year under review.	The attention will be paid to repair the relevant screen.	It should be repaired and put to use as soon as possible.
(c) The crematorium built by the local council in the year 2014 at a cost of Rs.19,000,000 remained unused during the year under review.	Attention will be paid to this and necessary measures will be taken by seeking the advice of higher officials	Actions should be taken so that they can be utilized immediately.
(d) Seruwila Community Hall, which was built at a cost of Rs.7,191,123, had earned only Rs.3,000 in revenue during the year under review due to not following strategies to generate sufficient income.	By renting the Serunuwara Community Hall by 20 March 2023, Rs. 31500 has been earned and necessary steps will be taken to increase this income in the future.	It should be planned properly and action should be taken to generate income.
(e) The raw material grinding machine worth Rs.485,500 purchased on October 12, 2021, by the Sabha was underutilized.	The necessary steps are taken to use the raw material grinder this year.	It should be used immediately.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
13 vehicles worth Rs.41,388,101 received by the Seruwila Pradeshiya Sabha and already in use by the Sabha had not been taken over by the date of audit.	The necessary arrangements for this will be made in the future.	Arrangements should be made to take over immediately.

3.4 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
There were 13 vacancies in 10 posts when comparing the actual number of employees with the approved staff of the Sabha.	The concerned authorities have been requested in writing to fill up the vacancies in the approved number of employees.	Vacancies should be filled.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Sabha	Recommendation
According to the action plan of the year under review, 21 tasks to be performed by the internal auditor were identified, but there was no evidence that those tasks were performed.	The internal auditor has been informed in writing and verbally in this regard. Instructions will be given to proceed as necessary in the future.	Internal audit should be formalized.

4.2 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
According to the budget prepared for the reviewed year, when comparing the estimated income and expenses with the actual income and expenses, variations were observed from 28.41 percent to 487.54 percent in 05 revenue subjects and 10.74 percent to 82.31 percent in 04 expenditure subjects, so it was observed that the budget was not used as an effective control tool.	Focusing is given to use the budget as an effective control tool.	The budget should be formalized.

4.3 Environmental Observations

Audit Observation	Comments of the Sabha	Recommendation
The garbage was consumed by wildlife and non-biodegradable waste was scattered over the area due to the reasons such as not grading the collected waste, releasing it freely, not continuing the recycling process, and Failure to follow a disposal method appropriate to the area of authority as per the amendments made to the National Environment Act No. 47 of 1980.	Attention will be paid in this regard.	Attention should be paid to reducing environmental problems.

4.4 Sustainable Development Goals

Audit Observation	Comments of the Sabha	Recommendation
The Sabha had identified the sustainable development objectives, goals and relevant criteria contained in the Sustainable Development Act No. 19 of 2017 and had taken measures to acquire 04 performance indicators to be achieved during the year under review.	No answers	Focus should be given on identifying and achieving the Sustainable Development Goals to be achieved by 2030.