

Passara Pradeshiya Sabha 2023

1. Financial statement

1.1 Qualified Opinion

The audit of the financial statements of the Passara Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the comprehensive income statement, cash flow statement, statement of changes in equity, significant accounting policies and the summary of other explanatory information 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 the 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, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Passara Pradeshiya Sabha as at 31 December 2023 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 the 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

Those charged with governance are responsible for overseeing the financial reporting process of the Pradeshiya Sabha. 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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 procedure that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the 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 discourses, 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:

The scope of audit has also been widened to examine the following as far as possible and whenever necessary.

- 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 compiled with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha.
- Whether the Pradeshiya Sabha 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 contains special provisions regarding the following requirements

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year
- (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 Preparation of Financial Statements

1.6.1 Accounting deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) An amount of Rs.1,177,675 payable to 03 industries which had not been completed as on 31 December of the year under review, had been entered as creditors in the financial statements.	As the work was completed in the first week of January 2024, it was entered in the register of creditors.	Actions should be taken to prepare Accounts correctly.
(b) The value of library books purchased in the year under review amounting to Rs.144,694 had not been capitalized.	Action will be taken to correct in the preparation of accounts for the year 2024.	-Do-
(c) As on 31 December of the year under review, overpaid member allowances and telephone allowances amounting to Rs.105, 194 had not been included in the financial statements.	Action will be taken to present a separate account for the overpaid MP allowances in the year 2024.	Actions should be taken to recover the allowances paid in excess.

1.6.2 Absence of written evidence for audit

Audit Observation	Comments of the Council	Recommendation
(a) The comprehensive schedules required to prove the value of cars and carts value of Rs.1, 117,500 and employee loans of Rs.675, 426 in 2011, had not been submitted to the audit.	The Lunugala Pradeshiya Sabha has been informed to hand over the cars and carts and settle the employees' loan balance.	The schedules in details should be submitted for audit.
(b) The descriptive schedule regarding the dishonoured checks of Rs.75,712 from the year 2012 had not been submitted to the audit.	Action will be taken to refer to the audit and management committee and act as per the instructions given.	Actions should be taken settle the Checks.

2. Financial Review

2.1 Financial Results

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December in the reviewed year was Rs. Rs.21,709,927 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs.15,399,602.

2.2 Financial Administration

Non-utilization of funds in productive investment

Audit Observation	Comments of the Council	Recommendation
The balance of Rs. 284,058 in a current account held in a state bank in the name of the council Since the year 2020, had not been effectively invested.	It has been decided to deposit as a fixed deposit and to earn a financial Benefit.	Actions should be taken to invest money effectively.

2.3 Revenue Administration

2.3.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

According to the information presented by the Secretary of the Pradeshiya Sabha, the following is the information about the estimated income, billed income, collected income, and arrears of the year under review and the previous year.

Source of income	Estimated income	2023		Total deficit as on 31 December	Estimatd income	2022		Total deficit as on 31 December
		Billed income	Collected income			Billed income	Collected income	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and taxes	7,856,159	6,738,358	4,886,434	1,851,924	7,181,159	6,271,199	3,599,138	2,672,061
(ii) Rents	20,905,122	20,461,415	15,949,298	4,512,117	20,873,872	20,481,563	15,709,218	4,772,345
(iii) License Fees	990,000	356,618	356,618	0	826,000	743,423	743,423	0
(iv) Other income	2,733,500	2,617,116	2,617,116	0	14,569,500	21,629,273	12,220,263	9,409,010
Total	32,484,781	30,173,507	23,809,466	6,364,041	43,450,531	49,125,458	32,272,042	16,853,416

2.3.2 performance in collection of Revenue

Following are the observations regarding the revenue collection performance of the council.

Audit Observation	Comments of the Council	Recommendation
(a) Outstanding assessment taxes of Rs. 117,493 which have been in existence for more than 02 years, had not been collected.	That plans have been made to recover the arrears.	Actions should be taken to recover the arrears.
(b) Outstanding water tariffs of Rs.623,571 which have been going on for more than 02 years, had not been recovered.	Outstanding water tariffs of Rs.357,827 have been collected and the approval has been directed to cut the disconnected water supply.	-Do-
(c) A sum of Rs.6,813,253 in arrears of rent for over 2 years had not been charged.	Actions are taken to direct refer to the Local Government Department to cut the shop rents.	Actions had been taken to charge the outstanding income.
(d) A sum of Rs.8,666,459 receivable as Court fines and an amount of Rs.8,322,955 as stamp duty had not been collected as on 31 December of the year under review.	Actions have been taken to recover court fines of Rs.3,006,313 and stamp duty of Rs.1,409,895	Action had been taken to charge the outstanding income.

3. Operational Review

3.1 Management inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In accordance with the Land and Building Register and as per the Tenement List of plan depicted dated January 30, 1948 by the Government Survey Department, the land of 30.54 perches in extent was owned by the council. Due to non-utilization of this land for productive purposes, outside parties had taken legal action to acquire the right of the said land. As a result, an expense of Rs. 168,000 had to be incurred for court proceedings	The amount has been paid for 04 cases.	Actions should be taken to identify and settle the Property belonging to the council.

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| (b) | If the building is constructed according to the special conditions No. 04 of the Land Suitability Certificate of the National Building Research Institute, the related plans should be submitted to the National Building Research Organization (NBRO) and recommendations related to the plans should be obtained. But the management had ignored the instructions and constructed the new commercial complex building at a cost of Rs.26,079,033 in the year 2023 on the basis of Local Development Support Project (LDSP) provision. It was observed by March 2024 that large explosions in the premises where the building is located burst of interior walls and tiles had occurred and a glass door had been completely shattered due to the landslides. | It occurred owing to the heavy rains and deep subsidence of the ground. | The attention should be paid to the suitability of the land before carrying out the construction and construction should be commenced on the recommendations of the relevant institutions. |
| (c) | Although an interim advance should be settled immediately after the completion of the work according to the Financial Regulations 371 (2) (b), actions had not been taken to recover the advances of Rs.88, 496, which had been given on 03 occasions in the years 2006 and 2014. | Actions are taken to refer to the Management Committee and act upon as per the relevant instructions. | Actions should be taken to settle Advances immediately after completion of the respective work. |
| (d) | Salaries to be reimbursed amounting to Rs.659,087 since the year 2006 had not been settled in the year under review itself. | -Do- | Appropriate actions should be taken and settled. |

3.2 Operational inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	A public market complex with 46 stalls had been built in the year 2017 with the allocation of the local credit and development fund of the local government department and the money collected from the shop owners in the Public market run by the Passara Pradeshiya Sabha amounting to Rs.44,770,559. the council had decided to lease 20 shops on the basis of long-term lease of 30 years to the previous shop owners excluding the tender procedure, 21 shops on the basis of long-term	Actions have been taken implement the recommendations approved by the Hon'ble Governor.	Actions should be taken to recover the outstanding income as per the agreements

lease by tender and 05 shops on the basis of annual tender in the year 2018. Out of these 42 shops, Rs. 12,165,159 shop rents had been in arrears as on 31 October, 2023

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| (b) | Although the monthly loan installment and interest related to the loan amount obtained from the local credit and development fund for the construction of the shop rooms mentioned in the above paragraph 3.2 (a) was Rs.507,445, there was not enough income from the shop rooms in the public market complex to pay that amount. | The previous shopkeepers have filed cases against the council. | Actions should be taken to act as per Court judgments. |
| (c) | A sum of Rs.374,909 had to be paid as surcharge due to the delay in payments of Rs.468,978 as contributions to the Employee Trust Fund from the relevant year 2016 to the reviewed year in respect of 29 employees in service, 04 retired employees and 03 retired employees had left the service. | An amount of Rs.300,000 due from 2016 has been paid so far and the remaining balance has been arranged to be paid in monthly installments. | Arrangements should be made to pay the contributions to the Employment Trust Fund within the stipulated period and the parties responsible for not doing so should be identified and recovered. |

3.3 Human Resource Management

Audit Observation

Without sufficient sources of income and without identifying new sources of income and without a formal recruitment procedure, 29 temporary field workers had been recruited in the year 2020 and the related duties had not been assigned. A sum of Rs.2,003,750 had been paid from the council fund for these employees as salaries from January to September of the year under review.

Comments of the Council

Additional employees have to be employed to perform services due to the merger of various sectors to the public services.

Recommendation

Actions should be taken to approve and recruit in a timely manner.

3.4 Assets Management

Audit Observation

06 disinfectant sprayers which was purchased in the year 2021 under Local Development Support Project (LDSP) funds and worth of Rs.113,700 remained idle as of 31 December of the year under review.

Comments of the Council

The spraying of disinfectant liquid has decreased due to the gradual reduction in the threat of the Covid epidemic and that there is the possibility of making use of these machines in the future.

Recommendation

Efforts should be made to use these machines effectively.