

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Baddegama Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations, Statement of changes in net assets, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy 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 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 accompanying financial statements give a true and fair view of the financial position of the Baddegama Pradeshiya Sabha as at 31 December 2023, 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

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 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 skepticism 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

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

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the cost of fans purchased for pre-schools was Rs.34,000, it was accounted as Rs.114,305 under furniture and fittings.	Will be corrected in the year 2024	Should be accounted correctly.
(b) The expenditure of Rs.70,310 incurred for making racks in the archives was accounted under land and buildings.	- do -	- do -

- (c) Expenditure of Rs.413,840 incurred during the year under review for acquisition of capital assets was not capitalized. - do - - do -
- (d) The direct remittances of Rs.60,586 received to the bank and Rs.437,734 payable to Works were not accounted. - do - - do -

1.6.2 Lack of documentary evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-submission of necessary detailed schedules for the confirmation of 02 accounting items, aggregating to Rs.110,000 could not be examine satisfactorily.	Will be writing off in the future.	Evidence confirming the accounts balances should be presented.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comments of the Sabha	Recommendation
The Financial Regulations 570 and 571 of the Democratic Socialist Republic of Sri Lanka	25 deposit balance of Rs.754,186, which exceeded a period of 02 years, had not been settled.	Will be rectified in the future.	Deposit balances that have exceeded a period of 02 years should be investigated and taken into income.

1.7.2 Unauthorized transactions

Audit Observation	Comments of the Sabha	Recommendation
In the year 2023, the secretary had used the council vehicle for 04 trips between home and office a day without group transport facilities, and had paid Rs.187,818 for its fuel.	These transport facilities will not be used after re-election of members for local government institutes.	Action should be taken to minimize the cost.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.37,237,241 as compared with the excess of revenue over recurrent expenditure amounting to Rs.76,522,030 in the preceding year.

2.2 Revenue Administration

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

Source of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Tax	7,526,443	7,778,380	6,009,653	10,819,398	5,191,041	4,810,368	4,402,458	9,148,681
Rent	19,715,780	4,772,115	4,875,790	116,536	46,765,970	51,909,200	51,995,395	220,211
License Fees	1,733,200	1,093,826	923,926	169,900	2,200,362	761,565	761,565	-
Other revenue	17,656,673	16,233,477	16,147,720	2,111,108	13,629,580	21,940,883	20,188,409	2,025,350
	46,632,096	29,877,798	27,957,089	13,216,942	67,786,953	79,422,016	77,347,827	11,394,242

2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The total arrears income as at 01 January of the year under review was Rs.11,394,242 as at the year end, that deficit was Rs.13,216,942.	Will be recovered in the future.	The action should be taken to recover the arrears of income.
(b)	In Baddegama Pradeshiya Sabha area, 118 organizations that have to pay business tax, 29 organizations that have to pay trade license fees and 06 organizations that have to pay industry tax have not paid the related fees. As a result, the Sabha had lost an income of Rs.267,560.	Arrangements are being made to recover the due amount.	Taxes and license fees should be charged as prescribed.
(c)	The Sabha had not charged an amount of Rs.1,064,100 for 74 hoardings.	According to the by-laws, hoardings will be charged.	A survey of hoardings should be conducted and revenue should be collected.
(d)	The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities were Rs.2,255,920 and stamp duty was Rs.79,629,105.	Will be recovered in the year 2024.	The action should be taken to collect the receivable court fines and stamp fees.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	It was observed that 595 electrical stock items valued at Rs.103,992 belonging to 16 types purchased before the year 2020 were idle in the stores, and currently those types of electrical stock are not used in the installation of streetlights.	These items will be looked into and disposed in the future.	Electricity stocks should be purchased considering the requirement.

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| (b) | In order to collect the fair income of the Pradeshiya Sabha, a retired officer had been given the authority to collect the revenue of the Sabha orally without any approval, and for that, Rs.348,842 had been paid. | It was arranged not to get any more. | The action should be taken legally in future |
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3.2 Operational Ineficiencies

Audit Observation	Comments of the Sabha	Recommendation	
(a)	Environmental protection licenses were not obtained after paying fees of Rs.90,000 from 20 organizations that should have obtained environmental licenses.	The written notifications have been given to obtain the environmental protection license.	The action should be taken according to the Section of the National Environment Act.
(b)	Although the cab registered in the name of Southern Province Chief Secretary was handed over to the Pradeshiya Sabha in the year 2012, it had not been used since that year. The Mechanical Engineer of the Local Government Department was inform to dispose this vehicle as per the Public Finance Circular No. 02/2015 as the repair was not effective, however this was not done.	After the issue of rights is resolved, the dispose proceedings are formally carried out.	Arrangements should be made to dispose of the vehicles.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation	
(a)	According to the Section 17(3) of the Pradeshiya Sabha Act No. 15 of 1987, all the properties owned by the Sabha should be administered by the Sabha, however 30 lands owned by the Sabha had not been fenced and the ownership of 11 lands had not been settled.	The boundaries are being measured and the boundary posts are being Fixed.	Lands should be fenced off and rights should be settled.

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| (b) | Due to non-repair of 04 machines, the cost of which was not mentioned, remained idle for between 03 to 08 years. | The mechanical department of the institution is doing repairs and that the water bowser is currently being used. | The maximum usage of the assets should be taken. |
| (c) | 21 volleyball stadiums had been built as divisions wise, and electrical equipment had been procured to supply electricity, out of which only 09 stadiums were completed, so streetlights valued at Rs.177,668 for 16 items remained idle in the stores. | The project had to be stopped temporarily due to the problems in acquiring the land at the proposed places to build the playground, the expiry of the official period of the local authorities and other practical problems that arose in the implementation of the project. | The problems should be resolved and the proposed projects should be implemented immediately. |

3.4 Contracts Administration

Audit Observation

830 cubic meters of soil taken from the stadium for the work item no. 02 of the Kasideniya auction land was prepared using the excavator machine. Therefore, Rs.200,030 was overpaid due to not using the prescribed price ratio for this purpose.

Comments of the Sabha

This used rate was used due to non-availability of relevant official rate analysis notes.

Recommendation

Applicable official rate should be used.