

Habaraduwa Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Habaraduwa 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 Habaraduwa 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	Comment of the Sabha	Recommendation
(a) Fixed deposit interest income receivable and discount on purchase of library books amounting to Rs.1,475,000 and Rs.225,112 respectively were not accounted.	The action will be taken to correct.	Should be accounted correctly.
(b) By crediting the discount of Rs.184,614 on the purchase of library books in the previous year to both the Accumulated Fund and Other Income Accounts, the balance of the Accumulated Fund Account had increased by Rs.184,614 in the year under review.	The action will be taken to correct.	Should be accounted correctly.
(c) The total closing stocks balance value by Rs.151,802 and capital creditor value by Rs.4,673,931 had been understated and	The action will be taken to correct.	Should be accounted correctly.

the expense had been overstated by Rs.23,073,552.

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| (d) | 16 machines and equipment valued at Rs.441,868 purchased for the vehicle maintenance unit of the Sabha and the tractor valued at Rs.3,419,000 were not capitalized, and vehicle maintenance cost amounting to Rs.367,494 was capitalized under machines and machinery. | The action will be taken to correct. | Should be accounted correctly. |
| (e) | The provision had not been made for the expenses creditors of the previous year, in the correction in the year under review Rs.186,220 had been shown as more expenses creditors and less accumulated fund. | The action will be taken to correct. | The Creditors provision should be made at correct value. |
| (f) | Under provision of Rs.3,884,187 had been made for creditors. | The action will be taken to correct. | The Creditors provision should be made at correct value. |
| (g) | There was a difference of Rs.184,615 between the balance of the property, plant and equipment accounts and the balance of the Capital contribution from income and grant account. | The action will be taken to correct. | Should be the same with the balances of the accounts. |

1.6.2 Non reconciled control account

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs.14,670,306 between the balances related to 11 accounting items shown in the financial statements and the balances shown in the related utility registers.	The difference between the balances will be corrected.	Discrepancies between the accounts and schedules should be reconcile and corrected.

1.6.3 Suspense Accounts

Audit Observation	Comment of the Sabha	Recommendation
The debit balance of the suspense account which was carried forward from the year 2008 amounting to Rs.7,090 was not settled.	Will be investigated and resolved.	The balance of the suspense account should be settled.

1.6.4 Lack of Documentary evidence for Audit

Subject	Comment of the Sabha	Recommendation
Due to non-submission of necessary detailed schedules for the confirmation of 22 accounting items, aggregating to Rs.52,928,885 could not be examine satisfactorily.	Will be submit with the correct schedule.	Evidence should be submitted to confirm the account balances

1.7 Non-compliances

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

	Reference to Laws, Rules, Regulation	Non – Compliance	Comment of the Sabha	Recommendation
(a)	Section 24 of the Pradeshiya Sabha Act No. 15 of 1987	The Sabha had not taken action to gazette the roads constructed since 2010.	All non-gazette roads will be gazette immediately.	The roads constructed by the Sabha should be gazette and published.
(b)	i. 316 of the Finance Regulations of the Democratic Socialist Republic of Sri Lanka and 19 of the Pradeshiya Sabha Rules of 1988	Counterfoil books and other forms of financial value should be kept in the safe custody of the Secretary, however on the contrary 76949 tickets and 7850 receipts and sub-receipts valued at Rs.3,966,990 were handed over to a Management Service Officer.	The receipts and sub-receipts are instructed to be kept separately in safe storage.	Books of financial value should be kept safe.

ii. Financial Regulations 571	Rs.487,810 of 10 percent retention that had been deposited and exceeded the period of two years had not been adjusted to the Sabha's income.	The action will be taken correct in the preparation of the financial statements of the year 2024.	Should be accounted correctly.
(c) The Section 05 of Circular No. 2010/01 dated 27 December 2010 issued by the Commissioner of Local Government, Southern Province.	There were 39 shop stalls whose contracts had expired, and the sabha had not taken action to renew the contracts.	Non-contractual shops will be sealed in future.	Shop stall agreements should be updated once in 03 years.

1.7.2 Unauthorized transactions

Audit Observation	Comment of the Sabha	Recommendation
The secretary had used the Sabha's vehicle to travel between home and office a day without group transport facilities in the year 2023, and had paid Rs.296,968 for fuel.	The officials required to provide group transport facilities are not available in this office.	The action should be taken to minimize the cost.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2023 amounted to Rs.39,723,912 as against with the excess of revenue over recurrent expenditure amounting to Rs.68,083,412 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 Taxes	19,025,000	18,919,067	19,673,584	31,249,409	17,530,298	17,117,787	13,581,262	32,003,926
Rent	5,873,000	2,593,077	1,631,732	5,041,325	7,225,500	8,225,721	5,887,922	4,079,980
License Fees	10,000,000	9,489,752	9,516,052	30,400	12,126,190	9,055,168	9,064,668	56,700
Other Income	19,415,000	30,882,385	30,882,385	522,822	10,800,500	83,226,398	83,226,398	522,822
	54,313,000	61,884,281	61,703,753	36,843,956	47,682,488	117,625,074	111,760,250	36,663,428

2.2.2 Performance in Revenue Collection

	Audit Observation	Comment of the Sabha	Recommendation
(a)	The total outstanding income was Rs.36,663,428 as at 01 January of the year under review, and it was Rs.36,843,956 at the end of the year.	Necessary action are taken to recover the total revenue due.	The arrears of income should be recovered.
(b)	In the arrears assessment tax balance of Rs.31,170,219 as at 31 December of the year under review, there was an arrears balance of Rs.4,080,228 which has not been collected for more than 03 years. There were 6845 assessed tax properties within the area of authority in the head office, out of which any tax was not paid for 4921 properties, and a tax amount of Rs.13,969,998 was due from those properties.	The arrears will also be recovered promptly.	The balances that remain unpaid for a long time should be recovered.

(c)	The total arrears of tax and rent income was Rs.4,079,980 at the beginning of the year under review, and it was Rs.5,041,325 at the end of the year.	Necessary actions are taken to recover the total revenue due.	The arrears of income should be recovered.
(d)	The action was not taken on behalf of Jovi Restaurant regarding the outstanding tax amount of Rs.98,256 as at 31 December 2018.	The action will be taken to get Legal action.	Long outstanding balances should be recovered.
(e)	As per clause 03 of the agreement relating to the lease of the shop stall, the amount of outstanding security deposit which is not collected from 85 shop stalls was Rs.1,534,200, and the said amount had not been collected.	The action will be done in the future.	Arrangements should be made to collect the security deposits.
(f)	A fee of Rs.1,272,795 was not charged for 169 hoardings installed within the Sabha area.	The action will be taken to collect the fees for the year 2024.	Relevant fees should be charged from the hoardings.

3. Operational Review

3.1 Performance of functions assigned by the Act

Audit Observation	Comment of the Sabha	Recommendation
Out of 126 registered entities that collect garbage tax within the area of authority in the Sabha, 61 organizations were to collect a deficit of Rs.1,854,275, and the Sabha had not taken action to recover it.	The arrears of garbage tax will be collected immediately.	Arrangements should be made to collect the arrears of garbage charges.

3.2 Management Ineficieacies

Audit Observation	Comment of the Sabha	Recommendation
(a) Since the Koggala Free Trade Park and Jovi Park belonging to the Sabha have not been functioning since 2018, 7850 tickets valued at Rs.3,966,990 printed related to them remained idle.	After the renovation works will be completed, the tickets will be used to generate revenue.	Repairs should be expedited to generate revenue.

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| (b) | Rs.740,386 had been paid from the Sabha fund on 08 occasions as incentives for 07 officials including the secretary of the Sabha for collection of stamp fees of Rs.24,679,520 due from Land Registrar's Offices in outside provinces without compliance to the provisions of Section 132 of the Pradeshiya Sabha Act No. 15 of 1987 | The payments were made as per the Circulars of the Local Government Commissioner and the decision of the monthly general meeting. | Payments should be made to minimize expenses. |
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3.3 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
According to the powers assigned under Section 23 of the Environmental Act No. 47 of 1980, 447 lodges/canteens, hotels and bakeries established and maintained in the Pradeshiya Sabha area had lost revenue of Rs.1,788,000 due to non-obtainment of relevant licenses	The necessary activities are currently being carried out.	A survey should be conducted on the institutions that need to obtain environmental permits and further action should be taken.

3.4 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) 02 vehicles used by the council had not been acquired.	The necessary action will be done promptly.	Arrangements should be made to take ownership of the vehicles.
(b) Idle Assets		
Audit Observation	Comment of the Sabha	Recommendation
(i) 04 tractor-trailers with unrecognizable cost were lying idle for a period of 04 years due to non-repair as rotted floor.	The action will be taken to repairs immediately.	Assets should be promptly repaired and put to use.

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| (ii) | The face and body of the Photon crew cab received from the Ministry of Local Government in 2015 should be renewed, and it remained idle for 03 years due to non-repair. | The action will be taken to direct it to the repair. | Assets should be promptly repaired and put to use. |
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3.5 Deficiencies in contract administration

Audit Observation	Comment of the Sabha	Recommendation
(a) An additional sum of Rs.81,833 was paid for the renovation of the Koggala Pre-school and for plastering the wall of the painting work and for the completion of the molding.	The action will be taken to recover from the society.	The overpayment should be recovered.
(b) Rs.63,742 were overpaid due to non-use of fixed price rates for the Koggala fair building renovation work.	The action will be taken to recover from the society.	The overpayment should be recovered.

3.6 Human Resources Management

Audit Observation	Comment of the Sabha	Recommendation
The staff loan balance due from 13 employees who vacated their post, interdiction and retired was Rs.2,347,905, and the Sabha had not taken action to recover the said loan balances.	The Final reminder letters have been issued to settle this outstanding balance.	Arrangements should be made to recover outstanding loan balances.