

## **Walallawita Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Wallalawita Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of changes in net assets/ equity, 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 Walallawita Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **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 Sri Lanka Public Sector Accounting Standards for Local Authorities 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 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

| <b>Non-compliance with reference to relevant standard</b>  | <b>The Comment of the Sabha</b>           | <b>Recommendation</b>   |
|--|---|---|
| (a) In accordance with Chapter No. 3.27 to 3.32 of the Standard, interest income from fixed deposits amounting to Rs.371,925 had not been disclosed under cash flows generated from investment activities. | Will be prepared correctly in the future. | Accounts should be prepared in accordance with the Sri Lanka Public Sector Accounting Standard for Local Authorities. |
| (b) Although the depreciation method used and the depreciation rates should be disclosed for each property plant and equipment according to Chapter No. 6.20 of the standard, It had not been done.        | -do-                                      | -do-  |

### 1.6.2 Accounting Deficiencies

| <b>Audit Observation</b>   | <b>Comment of the Sabha</b>   | <b>Recommendation</b>   |
|--|---|---|
| (a) Roads and culverts amounting to Rs.20,015,117 had not been capitalized during the year under review.   | The correction will be made by the journal entry during the preparation of the financial statements of the year 2024. | Accounts should be prepared accurately.                             |
| (b) Assets acquired from the capital expenditure grants amounting to Rs.1,653,802 received in year 2021, an amount equal to the amount of annual depreciation was not adjusted as transfers made by the government for non-recurring expenses in the | -do-  | Capital Grant should be accounted in accordance with the slandered. |

comprehensive income statement in the previous year as well as in the year under review.

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|-----|--|------|---|
| (c) | In accounting for the payment of Rs.161,500 in excess of the estimated amount for a sabha industry completed in the year 2022, instead of debiting the asset account, the accumulated fund had been debited.   | -do- | Accounts should be prepared accurately. |
| (d) | Rs.47,432 had been accounted as depreciation for the library books purchased and received as donations amounting to Rs.474,323 during the year under review contrary to depreciation policy.   | -do- | -do-                                    |
| (e) | The mistake of capitalizing the previous year's recurring expenses of Rs.1,244,000 to the building account had been corrected in the year under review, but Rs.31,100 had been accounted as depreciation in relation to the year under review.   | -do- | -do-                                    |
| (f) | The annual depreciation of Rs.11,250 related to machinery which was removed during the year amounting to Rs.225,000 was not accounted and the accumulated depreciation amounting to Rs.31,392 related to furniture which was removed during the year amounting to Rs.41,855 had not been removed from the depreciation allocation account. | -do- | -do-                                    |

## 1.7 Non-compliances

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

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

| Reference to Laws, Rules, Regulation and Management                                | Non – Compliance   | Comment of the Sabha | Recommendation   |
|--|--|----------------------|--|
| (a) Pradeshiya Sabha Act No. 15 of 1987 Section 182.                               | Arrears of revenue amounting to Rs.470,301 had been written off without obtaining the approval of the Governor during the year under review. | No answers provided. | Action should be taken in accordance with section of the Pradeshiya Sabha Act. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571(2) | It had not been made inquiries from the depositors before taking overdue deposits amounting to Rs.2,952,647 to revenue.                      | No answers provided. | Action should be taken in accordance with Financial Regulations .              |

## 2. Financial Review

### 2.1 Financial results

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2023 amounted to Rs. 13,572,596 compared with the excess of expenditure over revenue amounting to Rs. 55,306 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 Secretary, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

| Source of Revenue   | 2023                   |                     |                        |                                | 2022                   |                     |                        |                                |
|---------------------|------------------------|---------------------|------------------------|--------------------------------|------------------------|---------------------|------------------------|--------------------------------|
|                     | Estimated Revenue (Rs) | Revenue billed (Rs) | Revenue Collected (Rs) | Arrears as at 31 December (Rs) | Estimated Revenue (Rs) | Revenue billed (Rs) | Revenue Collected (Rs) | Arrears as at 31 December (Rs) |
| (i) Rates and Taxes | 1,973,760              | 1,974,003           | 1,576,976              | 1,082,402                      | 2,557,230              | 2,783,222           | 2,194,574              | 1,649,246                      |
| (ii) Rent           | 8,279,090              | 6,696,958           | 6,127,950              | 586,618                        | 8,279,090              | 3,607,430           | 3,536,074              | 330,834                        |
| (iii) License Fees  | 276,500                | 408,752             | 406,752                | 2,000                          | 276,500                | 351,904             | 351,904                | -                              |
| (iv) Other Revenue  | 581,000                | 941,070             | 923,130                | 17,940                         | -                      | -                   | -                      | -                              |
|                     | 11,110,350             | 10,020,783          | 9,034,808              | 1,688,960                      | 11,112,820             | 6,742,556           | 6,082,552              | 1,980,080                      |

### 2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below.

| Audit Observation   | Comment of the Sabha   | Recommendation   |
|---|--|--|
| <b>(a) Rates and Taxes</b><br>The assessment tax deficit was Rs.1,495,096 at the beginning of the year under review and Rs.633,384 or 42 percent had not been collected during the year.      | That payments are being avoided due to the poor economic situation in the country. | Arrangements should be made to collect the arrears of revenue as soon as possible. |
| <b>(b) Rent</b><br>The deficit of rent of commercial premises was Rs. 71,356 at the beginning of the year under review, and, Rs. 50,104 or 70 percent had not been collected during the year. | has not yet been charged.  | -do-   |

### (c) Other Income

The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities by 31 December 2023 were Rs. 2,000,000 and stamp duty was Rs. 6,875,205. That will be recovered in the future. -do-

## 3. Operational Review

### 3.1 Identified Losses

| <b>Audit observation</b>   | <b>Comment of the Sabha</b>   | <b>Recommendation</b>   |
|--|---|---|
| Investigations had not been started in accordance with financial Regulation 104 to determine the persons responsible for the destruction of computers and devices in the year 2022, which had been given to the chairman, amounting to Rs.751,884. | That requests have been made to the Local Government Department on 22.05.2023 and 01.04.2024 for investigate. | Action should be taken in accordance with financial regulations and recover the loss. |

### 3.2 Assets Management

| <b>Audit Observation</b>  | <b>Comment of the Sabha</b>   | <b>Recommendation</b>                              |
|---|---|--|
| (a) A cab, a JCB machine and a tractor owned by the sabha had been idle since 02 years, and 02 other tractors have been idle since 09 years without repair. | Although estimates have been received for repairs, the sabha does not have the funds. | Repairs should be expedited and assets put to use. |
| (b) The compactor mounting to Rs.1,600,000 received by the sabha in the year 2015 had not been used since that year.  | Intended to be given to another institution.  | Asset management should be streamlined.            |