

## **Sethawaka pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sethawaka pradeshiya sabha for the year ended 31 December 2023 comprising with the Balance sheet as at 31 December 2023, Income and Expenditure account, 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 and with the provisions of the National Audit Act No. 19 of 2018 read in conjunction with the Pradeshiya Sabha Act No. 15 of 1987. 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 Sethawaka pradeshiya sabha as at 31 December 2023, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

#### **1.2. Basis for Qualified Opinion**

I expressed qualified opinion regarding financial statement 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 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 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 Urban council
- Whether it has performed according to its powers, functions and duties, and

- Whether the resources 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 include 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 of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit observation on the preparation of Financial Statements

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

Non-compliance with reference to the relevant standard	Comments of the Sabha	Recommendation
According to Chapter No. 3.26 of the standard, the value of cash and equivalents should be calculated, but according to the financial statements, the value is Rs.18,982,618 and according to the cash flow statement, the value is Rs.107,669,919, so the cash flow statement was unbalanced by Rs.88,687,301.	That it will be corrected by the financial statement on 31.12.2024.	The cash flow statement should be prepared correctly as per the standard.

### 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) In the year under review, for a period of 20 years, Rs.2,000,000 which was paid for the land acquired on long-term lease basis, instead of being shown as an expense, the property and equipment had been overstated due to the land being shown in the account.	That will be corrected by the financial statement on 31.12.2024.	Action Should be taken to account according to the standard.
(b) The understatement of installations depreciation of Rs.595,389 in the year 2022, had been credited to the installations account in the correction of	-do-	Depreciation should be accounted properly.

the year under review.

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| (c) | Installations in the year 2022 will be Rs.96,500 in rectification in the year under review, the over-recording of the installations account is Rs.868,500 had been debited.  | That will be corrected by the financial statement on 31.12.2024. | Assets should be accounted properly.                                     |
| (d) | Rs.8,528,450 due to non-reconciliation of Ayurvedic stock with income and expenditure account used for the year under review, the surplus and current assets of the year had been over-accounted for by that value.  | -do-   | Adjustments should be made correctly in the stock account.               |
| (e) | As on 31 December of the year under review, the compost stock of was Rs.111,100 but it was stated as Rs.9,984 in the financial statement and the non-exchange transaction receivables had been under-accounted by Rs.101,116.  | -do-   | Stocks values should be accurately recorded in the financial statements. |
| (f) | Payable Bank loan interest on 31 December 2022 is Rs.109,901 had been paid in the year under review but it was shown as payable bank loan interest in the financial statements.  | -do-   | Should be accounted correctly in the financial statements.               |
| (g) | The cost and accumulated depreciation of the fixed assets disposed of in the year under review had not been recognized and the surplus amounted to Rs.148,990 had been accounted more due to adjustment of all proceeds from disposal to income and expenditure account. | -do-   | Disposal of fixed assets should be accounted correctly.                  |
| (h) | Worth Rs.432,350 had been under-accounted for Property plant and equipment due to non-addition of office equipment worth Rs.58,000 purchased in the year under review and furniture worth of Rs.374,350 had not added to the assets.                                     | That will be corrected by the financial statement on 31.12.2024. | The fixed assets should be accounted correctly.                          |

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| (i) | In the year under review worth of Rs.1,570,988 work in progress had not been included in the financial statements.   | -do-   | The work in progress should be accounted correctly in financial statements. |
| (j) | The non-current investments had been overstated by Rs.17,288,769 due to the inclusion of employee deposit investments of Rs.383,232 and urban development fund investments of Rs.16,905,537 in non-current investments in the financial statement. | -do-   | The investment should be accounted correctly.                               |
| (k) | The income of the year had been overstated by Rs.275,650 due to the billed tender shop rental income for the year under review was Rs.9,055,743 and it was calculated as Rs.9,331,393 to the comprehensive income statement.                       | -do-   | The shop rent income should be accounted correctly.                         |
| (l) | The prepayments and receivables had been overstated by Rs.16,052,223 due to the prepayment and receivable industrial debtors was Rs.15,767,407 as on 31 December 2023 and it was stated as Rs.31,819,630.  | -do-   | The debtor balance should be accounted correctly.                           |
| (m) | The prepayments and receivables were understated by Rs.1,041,456 due to the bank interest receivable under prepayments and receivables before 31 December 2023 should have been shown as Rs.1,704,497, but it was stated as Rs.663,041,            | That will be corrected by the financial statement on 31.12.2024. | The receivable interest income should be accounted correctly.               |

### 1.6.3 Unreconciled control accounts or records

#### **Non-compliance with reference to the relevant standard**

A difference of 2,213,524 had been observed between the balances due to the balance of mixed deposits was Rs.11,678,491 but according to the schedule the balance was 13,892,015 as per the financial statements of the year under review,

#### **Comments of the Sabha**

That it will be corrected by the financial statement on 31.12.2024.

#### **Recommendation**

Action should be taken to tally the balance between the schedules and the financial statements.

## 1.7 Non- Compliances

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

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

Reference to Non-compliance Laws, Rules Regulations etc.	Comments of the Sabha	Recommendation	
Treasury Circular No. 02/2017 dated 21 December 2017	The cab number 53-4183 which was received from the Kotikawatta Pradeshiya Sabha was not taken over by the sabha.	That the cab is registered in the name of the Chief Secretary of the Western Province and the Commissioner of Local Government has informed the Chief Secretary that it should be handed over to the Sabha.	It should be taken over as per the circular.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.14,928,217 as compared with the excess of revenue over recurrent expenditure amounted to Rs.119,570,029 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 the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sources	2023				2022			
	Estimated revenue Rs.000	Billed revenue Rs.000	Collected revenue Rs.000	Total arrears as at 31 December Rs.000	Estimated revenue Rs.000	Billed revenue Rs.000	Collected revenue Rs.000	Total arrears as at 31 December Rs.000
Rates income	41,157	22,143	13,683	8,460	34,651	39,837	35,977	3,860
Rent income	39,472	30,872	30,034	838	43,300	33,031	31,924	1,107
License Fees	4,098	3,747	3,669	78	3,266	2,448	2,448	-
Other Revenue	286,574	268,567	268,567	-	301,204	202,276	186,507	15,769
<b>Total</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>
	<b><u>371,301</u></b>	<b><u>325,329</u></b>	<b><u>315,953</u></b>	<b><u>9,376</u></b>	<b><u>382,421</u></b>	<b><u>277,592</u></b>	<b><u>256,856</u></b>	<b><u>20,736</u></b>

## 2.2.2 Performance in Revenue Collection

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	As of the last day of the reviewed year, the sabha had not worked as per the agreement to collect the arrears of rent and income of Rs.814,123.	Actions will be taken to collect in the year.	Action should be taken to collect the revenue.
(b)	The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December 2023 were Rs.90,000,000 and stamp duty was Rs.242,611,559.	That schedules are being prepared for court fines and stamp duty that should have been received.	Action should be taken to collect the revenue.

## 3. Operational Review

### 3.1 Identified Losses

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
	According to the last bill, Rs.4,183,000 had been paid to the garage for the repair of a cab, but the sabha had not decided how to deal with the loss of Rs.1,318,275 that was not covered by the insurance of Sri Lanka Insurance Corporation. The above loss could not be recovered due to the fact that the General Meeting had been empowered to decide the party responsible for the loss without submitting the full report that should be submitted as per FR 104(4).	A letter dated 26.03.2024 has been forwarded to the Sri Lanka Insurance Corporation to settle the unpaid arrears related to the repair of the PE-6879 cab and that the related arrears will be settled.	Action should be taken to collect the loss as per the instruction of FR 104.

### 3.2 Management Inefficiencies

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	According to the debtor period analysis as at 31 December 2023, the amount of Rs.2,172,543 had not been collected for the industries performed up to 31 December 2022.	That this amount will be recovered or the documents will be amended in the year 2024.	The action should be taken to collect the debts.

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| (b) | According to the creditor period analysis as at 31 December 2023, the Sabha had not focused on settling the balance of Rs.39,669,664 due at 31 December 2022. | That the balance which can be settled out of Rs.39,669,664 will be settled before 31.12.2024. | The action should be taken to settle the debts. |
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### 3.3 Operation Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) An amount of Rs.158,137 should have been charged to the sabha due to the non-payment of the agreed tax amount for the period from 15 February 2021 to 31 December 2021 for the Hanwella Goat and Chicken Shop and The sabha had not worked for the collection of that amount in accordance with the provisions of Section 159 (1) of the Pradeshiya Sabha Act.	That further legal actions are being taken to collect the amount of Rs.158,137 due from the lessee.	The action should be taken to collect the arrears.
(b) In relation to 05 plots of land that were auctioned in the sabha area and the sabha had received Rs.2,491,315 as sales tax amount of 1% on the sale value of the said land on the date of audit 05 December 2023. The said tax amount was decided on the basis of an valuation obtained by the revenue administrator before auctioning the land and the actual sale value had not been followed up.	As per the instructions given in the audit, the sales tax will be collected follow-up on the value of the land will be sold in the future.	The sabha should take actions to recover the sales tax as per schedule.
(c) On 26 April 2023, Rs.2,000,000 was paid to Pussalla Plantation Company without signing a sub-lease agreement for sub-lease for compost production project of 02 acres and 01 rood (0.60702 hectare) to 20 years under the sub-lease system of Salava Estate in Pussellava Estate.	That some corrections are being made in the sub-lease agreement for obtaining this amount of land and then the copy of the agreement will be forwarded to you.	Contracts should be done as soon as possible.

### 3.4 Procurement Management

#### Audit Observation

The contract was awarded to a private company on 13 December 2022 at a value of Rs.5,735,000 (without VAT) for the establishment of a grid net accounting solar power system for the Kosgama Danny Wijesundara Sports Complex and an amount of Rs.5,161,500 had been paid in 09 May 2023 for that institution.

02 inverters should be installed with the system as per the specification submitted to the contractor along with the tender documents.

But according to the observation report of the Project Coordinating Officer of Sustainable Energy Authority practically one inverter of 20KW is enough to generate electricity of 20 KW, therefore only one inverter was installed. However above payments had been made to the relevant institution on the basis of installing 02 inverters.

#### Comments of the Sabha

According to the Technology Evaluation Committee specifications, 2 inverters should be used, but at the time of project implementation, it was problematic to import 2 inverters matching the capacity, so a single inverter that can get that capacity has been installed and further action will be taken based on the explanations of the Technology Evaluation Committee.

#### Recommendation

It should be done according to the specifications of the contract

### 3.5 Defects in Contract Administration

#### Audit Observation

- (a) Based on a 2020 budget proposal, the Director (Planning) of the Ministry of Local Government had recommended an estimate of Rs.11,597,429 (including VAT) for the construction of a crematorium at the Suduwella crematorium site and after following the procurement process, the contract had been awarded to a private entity. Although the retainer amount of Rs.896,624 was released to the contractor on 31 January 2023, according to the physical inspection

#### Comments of the Sabha

The works have been forwarded to the Chief Technical Officer and replies will be given as soon as they reply.

#### Recommendation

Action should be taken to complete the contract as agreed.

conducted by the audit on 04 December 2023, it was observed that this contract had been handed over without completion of work and remains idle until the remaining parts of the work are completed.

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| (b) | As per sub-section 8.12.1 (a) of the Government Procurement Guidelines the procured entity should have the responsibility for the execution of works, evaluation and assurance for the purpose of making interim payments and final payments, but the construction related to 14 items of Rs.585,305 had not been done mentioned in engineering estimate and less than 90% work done in respect of another 20 items worth of Rs.1,603,443 in estimate quantity sheet and a total of Rs.2,188,748 had been left unfinished. | -do- | -do- |
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**4. Accountability and Good Governers**

**4.1 Annual Action Plan  
Audit Observation**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The old weekly fair premises in Hanwella town should be developed as a car park to generate income for the sabha and the sabha should work to create the necessary infrastructure for parking, but the success of achieving the target was only 58 percent as of 31 December of the year under review.	As the old weekly fair is a property owned by the Divisional Secretary of Seethawaka, the Divisional Secretary has been informed that it should be legally handed over to the Pradeshiya Sabha and that after handing over the property to us it will be developed as a parking center.	Action should be taken to taken over the property.
(b) Money had been allocated for surveying roads in 26 divisions and only 23 percent of the allocated money had been paid for the survey work done during the year under review and the sabha had not been able to achieve the desired situation.	Out of the 26 requests made during the selection of roads related to the 26 divisions, only 06 had been given request letters about the roads. Those letters have been forwarded to the Technical Services Committee and the plans are being prepared.	Action should be taken according to action plan.