

Buththala Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Buththala Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial positions at 31 December 2023 and 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 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 financial statements give a true and fair view of the financial position of the Buththala 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

I expressed qualified opinion 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 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 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

National Audit Act, No. 19 of 2018 includes 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 as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) Three (03) buildings worth Rs.1,500,000 which do not belong to the Pradeshiya sabha were accounted under land and buildings of the Sabha.	That, corrections will be made in the preparation of the financial statements of the year 2024.	All assets owned by the Sabha should be properly identified.

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| (b) The assessed value of the land on which Konketiya community hall is located of Rs.1,000,000 had been accounted for twice. | That, corrections will be made in the preparation of the financial statements of the year 2024. | Correct values should be included in the financial statements. |
| (c) The value of the solar system installed at the Mahagodayaya Compost Unit of Rs.161,250 and the value of the fuel pump purchased for pumping diesel for vehicles owned by the Pradeshiya Sabha of Rs.18,300 had not been capitalized. | That, corrections will be made in the preparation of the financial statements of the year 2024. | Values of all assets owned by the Sabha should be identified and accounted for. |
| (d) The value of 03 industries of Rs.3,518,109 whose work was completed in the year 2022 and an industry of Rs.38,717,046 whose work was completed in the year under review had not been capitalized. | That, corrections will be made in the preparation of the financial statements of the year 2024. | Values of all assets owned by the Sabha should be identified and accounted for. |
| (e) The value of library books of Rs.73,350 received as donations to libraries should have been credited to the contribution to the capital application through donation account, but the contribution account was credited to the capital application through income account. | That, corrections will be made in the preparation of the financial statements of the year 2024. | Financial statements should be prepared correctly. |
| (f) Rs.41,349,475 received for the Local Development Supporting Project during the year under review and capital expenditure of Rs.41,426,202 incurred therein were not shown in the statement of financial operations. | That, corrections will be made in the preparation of the financial statements of the year 2024. | All income and expenditure of the Sabha should be accounted for. |

(g) In the year under review, the stamp duty income was overstated by Rs.208,498 and the court fines and stamp duty receivable as on December 31 of the year under review was understated by Rs.619,167. That, corrections will be made in the preparation of the financial statements of the year 2024. All incomes of the Sabha should be correctly identified and accounted for.

(h) According to the general deposit register as on December 31 of the year under review, the balance was Rs.4,231,942, but it was shown as Rs.4,130,263 in the statement of financial positions which was understated by Rs.101,679. That, corrections will be made in the preparation of the financial statements of the year 2024. Correct balances should be entered in the financial statements.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
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There was a difference of Rs.1,863,177 between the value shown in the financial statements and the value shown in the schedules of 02 account subjects.	This difference will be corrected during the preparation of the financial statements for 2024.	Documents and schedules should be properly updated and differences identified and corrected.

1.6.3 Documentary Evidences not made available for Audit.

Audit Observation	Comments of the Sabha	Recommendation
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Due to non-submission of Valuation reports, title deeds, fixed asset register and updated creditor's register in respect of an asset subject and a liability subject with the aggregate value of Rs.900,305,632, it was not possible to satisfactorily verify during the audit.	That, arrangements are being made to obtain a formal valuation and take possession of the usufructuaries properties and the subject officer were informed to maintain the creditor register up to date	Evidence should be submitted to confirm the account balances shown in the financial statements.

1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Comments of the Sabha -----	Recommendation -----
(a) No. 15 of 1987 Pradeshiya Sabha Act			
(i) Section 19 (xii).	The approval of the minister in charge was not obtained in the leasing of 15 shops in the Pradeshiya Sabha shopping complex.	That, the necessary steps will be taken to obtain the approval	In relation to long-term property lease, the approval of the minister in charge should be obtained.
(ii) Section 24(1)(a).	Although the Sabha should publish the notices related to roads and avenues in the gazette, according to the road inventory, 202 avenues belonging to the sabha were not published in the gazette.	That, the identified roads have been sent to the Local Government Commissioner's Office for publication in the Gazette.	Road inventory should be updated and gazetted.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka FR 571	Financial regulation had not been complied with regarding 09 deposit balances of Rs. 1,275,723 which had elapsed 02 years.	Action will be taken in accordance with financial regulation.	Action should be taken in accordance with financial regulation.
(c) Section 83(1) of the Urban Development Authority Act No. 41 of 1978;	74 approved building plans from the year 2018 to the year 2020, had not been inspected and compliance certificates had not been issued.	Field inspection will be conducted by technical officers on buildings that have not obtained compliance certificates	Construction of buildings in the Sabha area of authority should be regulated.

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| (d) Public Administration Circular No. 01/2002 dated 25 February 2002, | The state emblem and name of the Sabha were not printed in 10 vehicles and machines owned by the Sabha. | Necessary arrangements are made to paint the state emblem and name on all the vehicles and machines owned by the Sabha. | It should be complied with Circulars. |
| (e) Circular dated 17th August, 2010 of the Secretary, Ministry of Power and Energy. | A census had not been taken on the street lights maintained by the Sabha, and no contract had been entered into with the Ceylon Electricity Board regarding street lighting. | Action will be taken in the future to conduct a census on street lights and enter into an agreement with the Ceylon Electricity Board | It should be complied with Circulars. |
| (f) Public Finance Circular No. 02/2015 dated 10 July 2015 | The mini tractor had been inactive for 7 years and it had not been repaired or disposed of. | The Provincial Mechanical Director has been referred to obtain the recommendations to repair this tractor. | It should be complied with Circulars. |
| (g) Paragraph 02 of Uva Local Government Commissioner's Internal Circular No. 2017/01 dated 10 March 2017 | 07 vehicles belonging to the Sabha were used for duties outside the area of authority without the prior approval of the Assistant Commissioner of Local Government. | Necessary arrangements will be made to obtain prior approval, before being deployed for future duties. | It should be complied with Circulars. |

- (h) Circular No. 30/2016 of the Secretary, Ministry of Public Administration and Management paragraph 3.1 dated 29 December 2016
- The fuel combustion test was not conducted in respect of 17 vehicles owned by the Sabha.
- The fuel combustion test will be done in the future.
- It should be complied with Circulars.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December of the current year amounted to Rs. 14,687,703 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 6,098,689 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 of the Sabha relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

		2023				2022			
Source of Revenue		Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
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		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	6,248,067	3,394,049	4,140,316	4,253,733	2,191,067	2,183,916	2,247,344	-
(ii)	Rent	66,344,000	9,662,650	7,259,825	2,402,825	6,604,400	9,734,116	6,242,250	3,491,866
(iii)	License Fees	2,381,000	1,571,796	1,703,796	(132,000)	2,000,000	1,956,545	1,956,545	-
(iv)	Other revenue	68,319,000	43,078,107	34,590,953	8,487,154	14,374,000	24,637,080	14,733,051	9,903,129
	Total	143,292,067	57,706,602	47,694,890	15,011,712	25,169,467	38,511,657	25,179,190	13,394,995

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

Audit Observation	Comments of the Sabha	Recommendation
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<u>Rates and Taxes</u>		
(a) Out Of the assessment tax revenue of Rs.8,139,981 billed in the year under review, Rs.3,917,397 or 48 percent had not been collected as on December 31, 2023.	In the year 2024, the revenue in arrears will be recovered.	Billed revenue should be collected.
(b) Out of the outstanding assessment tax revenue of Rs.2,577,374 at the beginning of the year under review, Rs.1,737,389 or 67 percent was not recovered during the year. Accordingly, the progress of recovery of arrears of assessment tax was slow.	In the year 2024, the revenue in arrears will be recovered.	Assessment tax in arrears should be recovered promptly.
(c) The rental income of Rs.854,403 due for the lease of 03 properties owned by the Sabha from the year 1989 to the year 2022, was not collected even at the end of the year under review.	Arrears rent income will be recovered in future.	Revenue in arrears should be recovered immediately.
(d) According to the Gazette No. 2307 dated November 18, 2022, although it was stated that fees should be charged under by-law related to the waste treatment, for the year 2023 only 02 institutions had charged fees for garbage, but the other institutions that should be charged fees were not identified.	In the future, action will be taken to identify other institutions that should be charged fees	Actions should be taken according to the relevant by-laws.

Rent

(a) Out of the shop rent income of Rs.4,791,600 billed in the year under review, Rs.2,566,175 or 54 percent had not been recovered as on December 31, 2023. The arrears will be collected in the future. Billed revenue should be collected.

(b) Out of the arrear rent income of Rs.1,243,217 at the beginning of the year under review, Rs.1,030,876 or 83 percent had not been recovered by the end of the year. As a result, the progress in collecting the arrears rents was slow. The arrears will be collected in the future. The arrears should be recovered promptly.

License Fees

According to section 2.5.2 of the guidelines for local authorities on the issuance of environmental protection permits issued by the Central Environment Authority, the Sabha did not maintain a separate account for crediting the money charged as environmental protection permit fee and field inspection fee. These matters will be rectified in the future according to the instructions of the head of the institution. The guidelines should be followed.

Other Revenue

(a) An amount of Rs.150,000 due from the year 2008 to the year under review was not recovered from 03 telephone transmission towers belonging to 03 institutions established in the Sabha area of authority. The relevant arrears will be recovered in the future. Necessary steps should be taken to recover the arrears of revenue immediately.

<p>(b) The arrears of Rs. 1,507,336 due from 876 water consumers for the period 2021 – 2023 had not been collected by December 31 of the year under review.</p>	<p>The relevant arrears will be recovered in the future.</p>	<p>Necessary steps should be taken to recover the arrears of revenue immediately.</p>
<p>(c) Arrears machine rental income of Rs.11,296,080 due for the rental of vehicles and machinery belonging to the Sabha for the period 2010 – 2023, had not been recovered by December 31 of the year under review.</p>	<p>The relevant arrears will be recovered in the future.</p>	<p>Necessary steps should be taken to recover the arrears of revenue immediately.</p>
<p>(d) Court fines amounting to Rs.1,387,804 and stamp duty of Rs.7,715,758 had not been collected as on December 31 of the year under review.</p>	<p>Necessary steps are being taken to recover the arrears.</p>	<p>Necessary steps should be taken to recover the arrears of revenue immediately.</p>

2.3 Surcharges
Audit Observation

Comments of the Management

Recommendation

<p>----- An amount of Rs.559,108 in relation to the 06 surcharges imposed by me in the previous years against the responsible persons in accordance with the provisions of the Pradeshiya Sabha Act, had not been recovered even as on December 31 of the year under review.</p>	<p>----- The relevant amount will be recovered in the year 2024.</p>	<p>----- Surcharge should be recovered immediately.</p>
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3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a) In the board of survey of the year 2022, although it was identified 68 galvanized flag poles and 18 GI pipes were not available in the Sabha, no action had been taken regarding the deficit of goods even at the end of the year under review.</p>	<p>If it is confirmed that flagpoles and GI pipes are not available in the board of survey in 2024, the losses will be recovered from the responsible parties.</p>	<p>The responsible parties should be identified and the respective losses should be recovered.</p>
<p>(b) The sabha did not have the files containing the lease agreements related to the lease of shop rooms No. 02, 11, 12 and 30 in Buththala Old Trade complex and the case files containing the legal actions taken by the sabha in relation to the shop rooms No. 11, 12 and 30 and also no formal investigation was conducted into the misplacement of the relevant file and documents. No shop rent was billed for these shops after the year 2008.</p>	<p>The head of the department has been informed about the misplacement of the files and investigations are being carried out.</p>	<p>The safety of the assets owned by the sabha should be ensured and the responsible parties should be identified and necessary measures should be taken regarding misplacement.</p>
<p>(c) Regarding 56 unapproved building plans in the years 2019 and 2020, field inspections were not carried out and further action was not taken.</p>	<p>Field inspection will be conducted by technical officers and necessary further action will be taken</p>	<p>The construction carried out in the area should be regulated.</p>

(d) The value of 03 lands and 02 Community halls belonging to the Pradeshiya Sabha had not been assessed and accounted for.	The correction will be made in the preparation of the financial statements of the year 2024.	Values of all assets owned by the Sabha should be identified and accounted for.
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3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) In relation to 52 stalls, rent was collected based on the assessment reports of the year 2011.	The arrangements are being made to conduct a new assessment.	Shop rent need to be assessed periodically.
(b) Regarding the collection of assessment tax, developed areas were identified for the last time in the year 2004 and no arrangements were made to identify developed areas and levy assessment tax periodically.	In the future, the developed areas will be identified and assessed taxes will be levied periodically.	Time to time developed areas should be identified and assessment tax should be levied.
(c) Due to non-compliance with the assessment of Uva Province Chief Valuer No. MO/RD/498 dated July 24, 2018, in charging the monthly rent of 67 shop rooms which were leased for a long time, regarding the period 2018-2023, an income of Rs. 27,482,200 had been lost to the Sabha fund.	According to the instructions of the head of the department, which will be dealt with in the future	Correct assessment rent should be charged.

3.3 Transactions of Contentious Nature

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Rs.709,433.22 was paid as fuel expenses for 16,230 kilometers which was not driven regarding the cab used by the chairman for the period from January 2021 to July 2023 from the Sabha fund.	The Local Government Commissioner has been requested to carry out a preliminary investigation regarding the change in the Running charts of the cab.	Fuel cost incurred in excess from Sabha fund should be recovered from the responsible parties.
(b) According to the physical stock counting carried out on March 05, 2024 at Buttala Pradeshiya Sabha's organic fertilizer sales unit, there was a stock shortage of Rs.42,180.	Additional money should be charged for 37 bags of fertilizer	In relation to stock shortage, the responsible parties should be identified and action should be taken to recover the loss.

3.4 Assets Management

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The legal ownership of 05 vehicles belonging to the Pradeshiya Sabha was not taken over to the Sabha.	The necessary actions will be taken to take over the legal ownership of the vehicles to the Sabha in the future.	The legal ownership of assets owned by the Sabha should be taken over.
(b) According to Section 2 of the Motor traffic Act, a motor vehicle cannot be used without registration, but 03 vehicles were not registered even though 11 years had passed since the Sabha received them.	That, necessary arrangements are made to obtain registration certificates.	Immediate action should be taken to obtain registration certificates.

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| <p>(c) According to section 25(1) of the Motor Vehicle Act mentioned in paragraph 3.4(b) above, a valid revenue license should be obtained when using a motor vehicle for driving, but 04 vehicles whose validity period of the revenue license had expired were used for driving purposes.</p> | <p>The subject officers were informed to make arrangement so as to get revenue licenses on the due date.</p> | <p>Revenue license for vehicles should be obtained on due date</p> |
| <p>(d) 05 vehicles and machineries belonging to the Pradeshiya Sabah have been inactive for a period of 01 to 17 years, and the respective vehicles have not been repaired and used or disposed of.</p> | <p>Repair work on vehicles and machines are being carried on</p> | <p>Vehicles should be repaired or disposed of at relevant times.</p> |

3.5 Human Resources Management

Audit Observation

Comments of the Management

Recommendation

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| <p>(a) As of December 31 of the year under review, there were 10 vacancies in 06 posts in the sabha and 11 excess employees in 02 posts.</p> | <p>There is a vacancy due to suspension of recruitment and a surplus due to 2023 annual transfers.</p> | <p>Staff vacancies should be filled and posts of surplus staff should be approved.</p> |
| <p>(b) Loans of Rs. 106,617 which were given to 15 employees which has been outstanding for more than 1 year, were not recovered at the end of the year under review.</p> | <p>Further action will be taken regarding outstanding employee loans, after taking the advice of the Head of the Department.</p> | <p>Employee loan balances should be recovered promptly.</p> |

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation -----	Comments of the Management -----	Recommendation -----
According to Section 40 of the National Audit Act No. 19 of 2018, no internal audit was conducted in the Sabha in relation to the year under review.	That, an internal audit will be conducted in the future.	The internal audit work of the sabha should be conducted continuously.

4.2 Audit and Management committee

Audit Observation -----	Comments of the Management -----	Recommendation -----
In accordance with Section 41 of the National Audit Act No. 19 of 2018 and Internal Audit Guidelines Circular No. DMA/01-2019 of the Management Audit Department dated January 12, 2019, no audit and management committees were held for the year under review.	That, the Audit and Management Committees will be held in the year 2024.	Audit and Management Committees shall be conducted as per guidelines and circular provisions.

4.3 Budgetary control

Audit Observation	Comments of the Management	Recommendation
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<p>There were variations from 195 percent to 100 percent in 08 income subjects and 08 percent to 72 percent in 08 expenditure subjects in comparison with the actual income and expenses of the year with the estimated income and expenses according to the budget prepared by the Pradeshiya Sabha for the year under review. Thus, it was observed that the budget was not used as an effective control tool.</p>	<p>That, steps will be taken to properly prepare the budget in the future.</p>	<p>Annual budget estimates should be prepared more realistically, and work should be done to achieve those targets.</p>

4.4 Sustainable development goals

Audit Observation	Comments of the Management	Recommendation
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<p>Although the Sabha was aware of the United Nations' "Sustainable Development Agenda 2030", indicators for measuring sustainable development goals and targets were not identified.</p>	<p>In the future, the relevant indicators will be identified.</p>	<p>Indicators should be identified to measure sustainable development goals and targets.</p>