

## **Polgahawela Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Polgahawela Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, and statement of financial operations, 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 financial statements give a true and fair view of the financial position of the Polgahawela Pradeshiya Sabhaas 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 express qualified opinion in respect of financial statements based 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, 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 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 Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) Salary reimbursement of the Sabha staff amounted to Rs.7,830,959 in the month of December of the year under review had not been accounted for as reimbursement of salary receivable .	Actions will be taken to correct in the future.	Actions should be taken to accurately account for.
(b) deposit interest receivable had been overstated by Rs.4,914,396	-do-	-do-
(c) Value of physically existing furniture and office equipment amounted to Rs.738,890 had not been accounted for.	Actions will be taken to correct in the future.	Actions should be taken to accurately account for
(d) Value of stamp duty receivable to the Sabha from the North Western Provincial Chief Secretary's Office had been understated for by Rs. 65,167,117 as at december of the year.	-do-	-do-
(e) Store and office equipment which was not physically available in the Sabha amounted to Rs.50,103 had been accounted for.	-do-	-do-
(f) Fines receivable for the month of December of the year under review amounted to Rs. 206,875 had not been accounted for.	-do-	-do-

(g) re and office equipment amounted to -do- -do-  
Rs.143,184 had been overstated.

### 1.6.2 Unreconciled Control Accounts

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
There was a difference of Rs. 15,884,803 between the balances related to 16 accounting items totalling Rs 56,634,678 as shown in the financial statements as at 31 December of the year under review and the schedules.	Actions will be taken to correct the difference in balances as per schedules and financial statements	Actions should be taken to identify reasons for differences between balances as per schedules and financial statements and, to correct.

### 1.6.3 Failure to Submit Information Required for Audit

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
Due to non-submission of necessary information, 14 accounting items totalling Rs 36,573,742 could not be satisfactorily vouched in audit.	Actions will be taken to be given the balances verification information for each account item with the account of the future years.	Information that confirms the account balances should be submitted.

## 1.7 Non-compliance

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

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

<b>Reference to Laws, Rules, Regulations, Management Decisions etc.</b>	<b>Non-compliance</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 104	Preliminary investigations had not been carried out in respect of the accidents of 07 vehicles used by the Pradeshiya Sabha from the year 2019 to 30 June 2023.	The respective reports will be forwarded to the audit in the future.	The copies of the reports should be furnished to audit in terms of the Regulation.

- (ii) F.R. 1646                      The running charts of 02 vehicles from the year 2020 and 2021 had not been submitted for audit                      Actions will be taken to submit the running charts of all the vehicles owned by the Sabha for audit in due time                      Actions should be taken in terms of the above Financial Regulation.

**Public  
Administration  
Circulars**

- (i) Circular No. 01/2002 dated 25 February 2002                      05 vehicles had not been printed with the State Emblem along with the name of the respective institution.                      Actions will be taken to print.                      Actions should be taken in terms of the above circular
- (ii) Paragraph 3.1 of Circular No. 30/2016 dated 29 December 2016                      Fuel test was not done in respect of 20 vehicles belonging to the Sabha.                      The fuel combustion test will be performed.                      Actions should be taken in terms of the circular.

**2. Financial Review**

**2.1 Financial Results**

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2023 was Rs.56,265,899 and as against the expenditure that exceeded recurrent revenue of the preceding year was Rs. 98,499,491.

**2.2 Revenue Administration**

**2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues**

As per the information presented by the Secretary , the details about the estimated revenue, billed revenue, collected revenue and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	<u>Year 2023</u>				<u>Year 2022</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December
	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.
Rates and Taxes	13,071	13,571	9,479	16,111	12,676	103,131	8,276	2,036
Rents	19,853	15,530	14,809	5,327	1,131	6,531	6,121	409
License Fees	2,201	1,452	383	-	500	358	358	-
Other Income	98,240	103,518	2,615	-	72,379	-	108,536	-
	133,365	134,071	27,286	21,438	86,686	110,020	123,291	2,445
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## 2.2.2 Performance of Revenue Collection

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a) The billed income in the year under review was Rs.134.07 million, of which a sum of Rs. 27.28 million had been collected and at the end of the year under review, a sum of Rs.21.44 million remained to be recovered.	Comments have not been submitted for the observation.	Actions should be taken to recover billed and arrears of revenue without delay.
(b) The balance of arrears of rates that had exceeded a period of 05 years at the end of the year under review was Rs. 11,616,234 .	Actions will be taken to recover	Actions should be taken to recover the arrears of revenue by applying recovery measures without delay.
(c) The outstanding acreage tax balance due for more than 05 years at the end of the year under review, was Rs 116,271 .	Actions will be taken to recover.	Actions should be taken to recover the arrears of revenue by applying recovery measures without delay.
(d) The total of arrears of rates for 9,584 units of rates was Rs 15,975,313 at the end of the year under review and within that, the arrears for 18 units of rates exceeding Rs.25,000 was Rs.663,514.	Actions will be taken to recover.	Actions should be taken to recover the arrears of revenue by applying recovery measures without delay.
(e) Tthe arrear of rent receivable from 27 shops as at 31 December 2023 was Rs 1,537,325 and the Sabha had not taken steps to recover the arrears.	A sum of Rs 688,942 have been collected from the arrears so far.	Actions should be taken to recover full arrears.
(f) Although all the projects included in the list obtained by conducting an annual survey as per Pradeshiya Sabha Rule 61, should be entered in the Tax Register of Projects and the Register of Business Tax and Trade License Fees, actions had been taken to include only fee-paying businesses in the Register.	Actions will be taken to include all industries entered in the list obtained after conducting the survey in the tax register of projects and the register of business tax and trade license fees	Projects should be documented as per annual survey.

### 3. Operational Review

#### 3.1 Performing of Tasks enacted by the Act.

##### Solid Waste Management

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
A number of 15.4 tons of compost had been produced during the year preceding year and the compost fertilizer production had decreased by 4.96 tonnes or 32 percent during the year under review as compared to preceding year.	Because the hauler used to make compost has been inactive for more than 06 months the compost production was stagnant.	Actions should be taken to increase the production of compost fertilizer and increase income.

#### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
The amount of Rs.306,250 related to the number of 8,350 interlock given on credit basis by the Sabha for the year 2021 to an elders' organization had not been recovered.	The relevant documents were submitted to the Chief Secretariat for prosecution. The Attorney General's Department is unable to provide legal assistance to local government bodies as per the terms of the Establishments Code.	Actions should be taken to impose surcharges in future considering the loss incurred by the Sabha.

#### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a) Of the 51 assets advertised for tender and lease out, for 32 assets, the Sabha had lost potential revenue due to the inability to lease out to cover even the minimum bid decided by the Sabha by the 31 December of the year under review..	No any buyer appear for 32 assets despite four tenders called.	Actions should be taken to recover.
(b) Four interlock cutting machines valued at Rs. 1,397,152, which had been obtained for the interlock project, had been kept unsecured in the Sabha premises without being used.	While the interlock project has been temporarily stopped and 4 motors 4 has been dismantled and delivered to the warehouse.	A formal program should be implemented to generate income from the assets

Four machines are safe in owned by the the premises. Sabha and in respect of the security of those assets.

**4. Accountability and Good Governance**

**4.1 Activities in Contrary to the Objectives**

**Audit Observation**

Although 41 projects are to be completed by the Sabha as per Annual Action Plan (Sectorial Plan of Industrial Sector) , out of which only 04 projects had been completed . A sum of Rs.18,500,000 had been allocated for the revised projects and the Annual Budget.

**Comments of the Secretary**

The proposals were made on the approval of the Honourable Governor and the Commissioner of Local Government, giving priority to public demand proposals on the basis of emergency disasters from development project proposals.

**Recommendation**

Actions should be taken as per the Annual Action Plan.