

Ayagama Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ayagama Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, cash flow statement, statement of changes in equity, significant accounting policies and the summary of other explanatory 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 the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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 Ayagama Pradeshiya Sabha as at 31 December 2022 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 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 Responsibility for the Audit of 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 financial reporting process of the Pradeshiya Sabha.

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Auditor's Responsibility 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 exercise 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 the 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 contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 the Pradeshiya Sabha 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year.

- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

Accounting Deficiencies

	Audit Observation -----	Comments of the Council -----	Recommendation -----
(a)	Accrued expenses amounting to Rs. 107,300 were not accounted.	Those values have been omitted in the preparation of the 2022 final accounts.	This should be corrected.
(b)	Creditors and debtors on behalf of industries were overpaid by Rs. 18,826,749 each.	That will be corrected in the preparation of the final accounts in the year 2023.	-Do-
(c)	According to the financial statements, there was a difference of Rs. 20,130,866 between the balance of 06 accounting subjects and the balances according to the source documents.	It is very difficult task to check as there are differences from before the year 2020.	The reasons for the difference should be identified and resolved.

1.7 Non-compliance

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

Non-compliance with Laws, Rules, Regulations and management decisions are as given below.

	Non-compliance -----	Comments of the Council -----	Recommendation -----
(a)	Overdue miscellaneous deposits amounting to Rs. 311,678 for the period from 2018 to 2020 were not settled as per Financial Regulation 571 (2).	That will be corrected by the 2022 final account.	Should be act as per the Financial Regulations.
(b)	No by-laws were enacted for 08 main matters under section 126 of the Pradeshiya Sabha Act.	Arrangements are being made to obtain legal assistance for this.	It should be done according to the Pradeshiya Sabha Act.

2. Financial Review

2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2022 was Rs. 4,455,454 and the correspondence expenditure exceeding the recurrent income of the previous year was Rs. 1,627,450.

2.2 Revenue Administration

2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the council, the information about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year is given below.

Income Source	2022				2021			
	Estimated income	Billed income	Collected income	Total deficit as at 31 December	Estimated income	Billed income	Collected income	Total deficit as at 31 December
-----	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	1,287,560	1,263,910	1,246,874	581,796	1,097,100	1,059,337	1,025,797	556,210
Rentals	7,703,612	8,423,573	8,909,463	909,920	8,010,733	8,581,874	5,896,292	2,605,388
License fee	517,410	517,390	482,840	11,000	363,900	501,714	440,274	15,850
Other income	<u>710,000</u>	<u>491,840</u>	<u>485,576</u>	<u>12,593</u>	<u>8,620,100</u>	<u>878,214</u>	<u>867,917</u>	<u>12,217</u>
	<u>10,218,582</u>	<u>10,696,713</u>	<u>11,124,753</u>	<u>1,515,309</u>	<u>18,091,833</u>	<u>11,021,139</u>	<u>8,230,280</u>	<u>3,189,665</u>

2.2.2 Performance of the Revenue Collection

The observations regarding the performance of the revenue collection of the council are given below.

Audit Observation	Comments of the Council	Recommendation
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(a) There was an arrears of acre tax balance of Rs. 176,101 more than 03 years old as at 31 December 2022.	The arrears will be recovered in future.	Arrears of revenue should be recovered.
(b) 05 Stalls on the upper floor of the bus stand in Ayagama town have been unable to earn income since the year 2017 due to the use of them by the police.	That Rs. 105,000 has been recovered from the outstanding amount.	The building should be used for the intended purpose.

3.2 Assets Management

Audit Observation	Comments of the Council	Recommendation
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As per section 19(xii) of the Pradeshiya Sabha Act, a land was leased for 30 years to construct a filling station in the year 2022 without the approval of the Minister in charge of the subject. No valuation was obtained for the land and arrears of rent of Rs. 41,332 were not collected.	That the arrears be recovered after the transfer certificate required to hand over the proposed land to the council.	The ownership of the land should be obtained and the arrears of revenue should be recovered.

3.3 Contract Administration

Audit Observation -----	Comments of the Council -----	Recommendation -----
The construction of the Ayagama trade complex had started without obtaining a land suitability certificate. Later, when only the foundation and column shaft were built, the contract was terminated on the basis of a mutual agreement in the year 2022, but Rs. 2,018,645 was paid more for the completed work.	A land suitability certificate has been applied. The contract has been terminated by mutual consent due to the increase in the price of construction materials. Overpayments will be charged with retention.	Land suitability certificate should be obtained. Also, overpayments should be refunded.

3.4 Utilization of Vehicles

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Ownership of 03 tractors and taylors had not been seized or returned.	Assigning documents of the 06 motor vehicles have been sent to the Chief Secretary.	Should be act as per the circular provisions.
(b) A tractor which was bought in the year 2008 at Rs. 510,000 remained unused since the year 2015.	It will be added to running activities in future.	Should be acted as necessity.