

Ipalogama Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ipalogama Pradeshiya Sabha for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, Comprehensive Income Statement, Statement of changes in net assets/ equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of 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 accompanying financial statements give a true and fair view of the financial position of the Ipalogama Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard 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 Standard 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 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 and Regulatory Requirements

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

- 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.
- The financial statements presented includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although it is the council's policy not to depreciate the asset in the year of purchase and to depreciate it in the same year regardless of the date of purchase, the amount of Rs.14,841 had been depreciated for office equipment worth Rs.118,728 which purchased in the year 2022.	Accepted.	The correct value should be accounted.
(b) The total depreciation related to the year under review was stated as Rs.24,364,832 in the comprehensive income statement, but in the cash flow statement it had been stated as Rs.24,549,636 which was overstated by Rs.184,805.	- Do -	- Do -
(c) Although the depreciation for the year 2022 was Rs.47,731 for a building purchased in the year 2021 for Rs.1,909,230 it was calculated as Rs.86,154 which had been overstated by Rs.38,423.	- Do -	- Do -

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| (d) No of 139 bolts (brackets) included in the stock of electrical goods and accessories were purchased for Rs.220 each, but in the stock calculation on 31 December 2022, the stock value had been increased by Rs.35,445. | - Do - | - Do - |
| (e) The receivable amount of Rs.42,000 from telephone towers located in council ares had not been accounted. | - Do - | The income for the year under review should be accounted. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) The addition of wood furniture in the year 2022 was Rs.263,355 but according to the schedule it was Rs.313,355 which was a difference of Rs.50,000.	Accepted.	Corresponding records should be compared with schedules.
(b) According to the accounts, the garbage tax revenue due on 31 December 2022 was Rs.3,113,600 but according to the schedule it was Rs.3,224,700 which was a difference of Rs.111,100.	- Do -	- Do -

1.6.3 Unauthorized Transactions

Audit Observation	Comments of the Council	Recommendation
As a result of the Corona pandemic, it was approved by a council decision to write off only Rs.86,600 in outstanding business tax income, but the outstanding business tax income had been reduced by Rs.24,200 because of Rs.110,800 had been written off.	Accepted.	The correct value should be accounted.

1.7 Non- Compliances

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

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions are shown below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
(i) Paragraph No. 134	Developed areas within the jurisdiction of councils had not been identified and declared.	Sent to Local Government Department for gazetting.	The work for recovery of rates and taxes should be expedited.
(ii) Paragraph No. 159(2)	The arrears of garbage tax of Rs.3,224,700 had not been collected.	Accepted.	Recovery of arrears should be expedited.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.6,900,567 as compared with the excess of expenditure over revenue amounted to Rs.14,729 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Information 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.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	2,962,400	4,183,035	3,200,395	3,525,900	2,899,150	3,233,290	2,197,080	2,543,260
(ii) Rent	9,010,586	8,877,828	9,211,969	1,960,085	7,182,083	8,480,904	7,898,174	2,294,226
(iii) License Fees	416,350	451,550	385,050	229,500	452,100	337,450	345,000	163,000
(iv) Other revenue	17,154,000	18,435,126	17,602,484	20,131,132	14,781,000	13,205,375	17,466,364	19,298,490
	<u>29,543,336</u>	<u>31,947,539</u>	<u>30,399,898</u>	<u>25,846,617</u>	<u>25,314,333</u>	<u>25,257,019</u>	<u>27,906,618</u>	<u>24,298,976</u>

2.2.2 Performance in Revenue Collection

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

	Audit Observation	Comments of the Council	Recommendation
(a)	Rates and Taxes		
	The arrears of rates and taxes was Rs.3,221,250 as at 31 December 2022.	Garbage tax arrears has increased due to incorrect billing for abandoned houses in Ranajayapura area.	Formal approval should be obtained and the correct garbage tax revenue should be identified.
(b)	Rent		
	The council had been lost an income of Rs.161,618 in the year 2022 due to the facts that bids were not submitted for 06 rentable properties belonging to the council in the first instance, and not re-tendered by reducing the minimum bid.	Accepted.	The council should act as not to incur losses.
(c)	Other Revenue		
(i)	As at 31 December of the year under review, the receivable bill board income was Rs.163,000 which included Rs.67,800 from 04 years ago.	Accepted.	Actions should be taken to recover.

- (ii) As at 31 December of the year under review, the receivable telephone tower income was Rs.42,000 which included Rs.24,000 due from 04 years ago. - Do - - Do -

(d) Court fines & Stamp duty

Court fines of Rs.8,969,257 and stamp duty of Rs.8,149,500 that should have been received from the Chief Secretary of the Provincial Council and other authorities by 31 December 2022 had not been received.

Part of the arrears has been recovered.

Actions should be made to recover the remaining outstanding amount.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

There was an industry debtor (capital) balance of Rs.49,433 from the year 2017 and 09 industrial creditor balances of Rs.252,948 from the years 2017 and 2018, but necessary actions had not been taken to settle those balances.

Comments of the Council

Actions will be taken to settle.

Recommendation

Actions should be made to settle.

3.2 Assets Management

Audit Observation

Rs.306,500 had been paid in the year 2022 for the repair of the sabha tipper which had an accident on 18 December 2021, but as per Rule 14 mentioned in the Gazette Notice No. 2182/39, the persons responsible for the loss had not been identified and the money had not been recovered.

Comments of the Council

Actions will be taken to recover after receiving the disciplinary orders.

Recommendation

Disciplinary orders should be promptly obtained and collected.