

Palagala Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Palagala 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 equity / net assets, 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 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 financial statements give a true and fair view of the financial position of the Palagala 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

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 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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standard for Local authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
According to Sri Lanka Public Sector Accounting Standard No. 5.2 for Local Authorities r of cost or net realized value, but the stock of the Sabha's restaurant as of 31 December 2022 was valued at Rs.125,742 at the selling price.	Accept.	Sri Lanka public sector accounting standard for Local Authorities should be followed.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs.244,293 received from the Local Government Department during the year under review for non-recurring expenses had been understated.	Corrected.	The correct value should be accounted for.
(b) The environmental licence fee income was understated by Rs.5,175 and the environmental licence inspection fee income was overstated by Rs.5,175 in the comprehensive income statement in the year under review.	Accept.	-Do-

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| (c) | The rental income was understated by Rs.127,137 in the year under review. | That there is no difference according to the collections of the Sabha. | The correct value should be accounted for. |
| (d) | Outstanding rent income of Rs.66,800 continuing from the year 2021 was not accounted under receivables from exchange transactions in the statement of assets and liabilities of the year under review. | Accept. | -Do- |
| (e) | The cost of repairing the gravel roads was understated by Rs.258,485 in the year under review. | -Do-. | -Do-. |
| (f) | Purchase of library books amounting to Rs.110,245 during the year under review was accounted for under welfare expenditure in the comprehensive income statement. | -Do-. | Library books should be accounted as current assets. |
| (g) | Interest income for the year under review amounting to Rs.22,329 on fixed deposits was not accounted for. | -Do-. | Should be accounted for under the correct income head. |
| (h) | The over accounting of buildings by Rs.3,961,169 and roads by Rs.568,140 in the year 2021, had not been corrected in the year under review. Due to this, the depreciation and provision for depreciation of 2020 and 2021 were overstated by Rs.155,843. | -Do- | The correct value should be accounted for. |
| (i) | A creditor balance of Rs.6,465,293 shown in the cash flow from purchase of property equipment in the cash flow and a debtor balance of Rs.6,465,293 shown in the cash flow from capital expenditure grants in the cash flow statement of the year under review. | The difference is shown due to accrual basis accounting, but the accounting is correct. | Cash flow statement should mention only cash inflows and outflows. |

(j)	The capital expenditure grant value received in the year under review was overstated by Rs.70,652.	Accept.	The correct value should be accounted for.
(k)	A production of Rs.109,425 had been provided from the concrete project on welfare basis in the year under review, but the profit and loss had been calculated without considering it.	-Do-	-Do-
(l)	The council had filed lawsuits against other parties but it was not disclosed in the financial statements.	Not commented.	Should be disclosed.

1.6.3 Unreconciled Control Accounts or Records

	Audit Observation	Comments of the Council	Recommendation
(a)	There was a difference of Rs.1,316,186 between the values mentioned in the financial statements and the values mentioned in the schedules of 04 items.	Accept.	Comparison should be made with corresponding reports.
(b)	The net assets/equity was Rs.317,456,134 as per the statement of assets and liabilities of the year under review but in the statement of change in equity it was shown as Rs.310,781,899 therefore a difference of Rs.6,674,235 was observed.	-Do-.	-Do-.

1.6.4 Documentary Evidences not made available for Audit

	Audit Observation	Comments of the Council	Recommendation
	Sufficient and appropriate evidence was not submitted to prove 05 accounting subjects with a value of Rs.7,650,312.	Action will be taken to submit the evidences.	Corroborating evidence should be presented.

1.7 Non- Compliances

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

The instances related to non-compliances with Laws, Rules and Regulations are shown below.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Public Administration Circular No. 09/2009(i) dated 17 July 2009	Fingerprint machines had not been used to record the arrival and departure times of officials and employees.	Fingerprint machines are being using from February 2023.	Action should be taken as per circulars.
(b)	Paragraph 7 of Public Finance Special Circular 02/2015 dated 31 March 2015	11 vehicles belonging to the council which are in an inactive condition were not repaired or if it is not possible to do so, the necessary arrangements were not made to dispose of them.	Action will be taken to disposed of.	-Do-.

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.6,674,235 as compared with the excess of expenditure over revenue amounted to Rs.10,159,871 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	1,559,450	1,632,460	1,648,660	-	1,474,650	1,620,625	1,604,425	16,200
(ii) Rent	2,064,960	2,137,903	2,257,953	1,390,800	1,145,000	2,083,450	680,800	1,510,850
(iii) Licence Fee	306,995	267,175	268,175	-	264,000	281,100	280,100	1,000
(iv) Other Revenue	34,132,300	13,605,759	10,308,586	8,136,239	37,330,800	27,224,902	34,219,487	4,839,066
	<u>38,063,705</u>	<u>17,643,297</u>	<u>14,483,374</u>	<u>9,527,039</u>	<u>40,214,450</u>	<u>31,210,077</u>	<u>36,784,812</u>	<u>6,367,116</u>

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
According to Section 134(i) of the Pradeshiya Sabha Act No. 15 of 1987, Pabbogama town has been selected as a developed area under the jurisdiction of the Sabha, but no arrangements have been made to gazetted and levy rates and taxes on it.	Not Commented	Necessary measures should be taken to recover the Rates and Taxes.
(b) Rent		
(i) The arrears of income for the rental of the motor grader and roller amounting to Rs.1,902,300 is due from 01 to 05 years. Most of this arrears should have come from the chairman and members of the Pradeshiya Sabha.	-Do-	The arrears income should be recovered.
(ii) A rent amount of Rs. 161,750 had not been recovered for 1-2 years and Rs.1,295,850 of butcher tender revenues that had been outstanding for 1-10 years as of 31 December in the year under review.	-Do-	-Do-

(c) Licence Fee

A formal survey of the notice boards and telephone transmission towers in the jurisdiction was not conducted and documented during the year under review.	-Do-.	A survey should be conducted.
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(d) Other Revenue

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| (i) A sum of Rs.210,698 receivable for block stones and concrete rings produced by the concrete production project was not collected. | -Do-. | The arrears income should be recovered. |
| (ii) Three receivable balances of Rs.954,288 as of 31 December of the year under review, which have been outstanding for a period of 1-2 years. | -Do-. | -Do-. |

3. Operational Review**3.1 Performance of functions assigned by the Act**

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1.1 Allowing meat shops to run without providing slaughterhouse facilities

Audit Observation	Comments of the Council	Recommendation
(a) Although a land had been allocated to the council for the construction of a cattle slaughterhouse, the cattle slaughterhouses were being run at Nellyagama, Balaluwewa and Pabbogama without proceeding to construct the cattle sheds.	Not commented.	Necessary arrangements should be made for the construction of slaughterhouses.
(b) Action had not been taken to charge a fee of not more than Rs.10 for every 01 kg of meat for the inspection of meat with the seal of the council as fit for sale, according to the Section 09 of By-law 32 of By-law Gazette Notice dated 23 August 1988, and to obtain the details of the slaughtered animals in the relevant format.	-Do-.	Action should be taken according to the general standard by-laws.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
A sum of Rs.450,044 due to the Sabha for the program of distribution of goods to the people implemented in the year 2020 was not collected.	Not commented.	Action should be taken to recover.

3.3 Transactions with Contentious Nature

Audit Observation	Comments of the Council	Recommendation
According to the statement of the subject clerk of the council, a sum of Rs.3,182,000 was paid for 335 cubes of gravel in the year 2022, but according to the payment vouchers, a sum Rs.3,507,000 was paid for 501 cubes of gravel.	Accepted.	Should be compared with corresponding records.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) There were 07 employee vacancies related to 06 posts and there was an excess employee related to one post in the Pradeshiya Sabha.	Not commented.	Arrangements should be made to fill vacancies and release redundant employees to another organization.
(b) Rs.96,456 due from three employees had not been recovered in respect of advance "B" account.	-Do-.	Should be recovered.

3.5 Idle or Under Utilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs.8,829,079 was paid for the purchase of machinery and construction of buildings in the year 2022 for a project to produce and sell interlock stones, but since the interlock stone production activities had not started, those assets remained idled.	Not commented.	Necessary steps should be taken to earn income without keeping assets idle.
(b) The multi-purpose building and the well, constructed in the year under review at a cost of Rs.19,741,026 in Higuruweva area remained idled.	-Do-.	Necessary measures should be taken urgently to protect and utilize these assets.
(c) The sale of bottled water obtained from a natural spring in the Sabha area had started from July 2022. The project of selling water bottles has stopped because the Ministry of Health informed that spring water is not suitable for bottling drinking water and that there must be a source of water. Therefore, 25,978 empty plastic bottles worth Rs.990,785 and packaging material worth Rs.88,233 were left by 31 December 2022.	-Do-.	A feasibility study should be done before starting a project. Necessary measures should be taken to sell the available water bottles.

3.6 Assets Management

Audit Observation	Comments of the Council	Recommendation
A grass machine belonging to the council was only to be repaired and because it was given with the tractor, it had been parked in a private garage since 12 October 2022, and a small tiller had been parked in a private company in Galewela since 2021. These machines were not repaired and brought to the council.	Not commented.	These vehicles should be repaired and brought to the council.

3.7 Procurement Management

Audit Observation

Direct purchases amounting to Rs.1,370,410 had been made in the year under review without calling for quotations for works and services.

Comments of the Council

Not commented.

Recommendation

Action should be taken to get quotations.

4. Accountability and Good Governance Environmental Issues

Audit Observation

As the council had not chosen a specific place for garbage disposal, the council had refrained from collecting garbage in the area during the year under review.

Comments of the Council

Garbage collection has been stopped and the concerned persons have been advised to recycle the garbage.

Recommendation

A formal waste management process should be implemented.