

Rajanganaya Pradeshiya - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rajanganaya 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 Rajanganaya 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.

- (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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.5 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) The arrears of tender tax rents of Rs.15,183 for the year 2021, had been debited to the accumulated fund	Accepted.	The correct value should be accounted.

instead of being debited to the tender security deposit account when offsetting the tender security deposit payable to the institution.

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| (b) Motor grader rental income and JCB rental arrears of Rs.511,350 for the year 2021 had been accounted as income in the year under review. | - Do - | - Do - |
| (c) In the year under review, Rs.351,000 was received in cash from the sale of assets, but in the cash flow from investing activities in the cash flow statement, the profit from the sale of assets was stated as Rs.74,000 and the loss was Rs.94,700 so the cash flow from investing activities had been understated by Rs.371,700. | - Do - | - Do - |
| (d) In the year under review, the accumulated depreciation related to the removed generator was Rs.73,200 but in calculating the profit on sale of assets, it was adjusted to Rs.24,000 so the profit on sale of the generator had been understated by Rs.49,200 in the comprehensive income statement. | - Do - | - Do - |
| (e) The depreciation value of the reviewed year had been reduced by Rs.41,070 due to the calculation of the depreciation related to the reviewed year by Rs.19,200 and Rs. 21,870 respectively in relation to a removed generator and a water bowser. | - Do - | - Do - |
| (f) Although the accumulated depreciation related to a water bowser removed during the year | - Do - | - Do - |

under review was Rs.73,170 while calculating the profit on sale of assets, it had been adjusted less as Rs.24,300.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to insufficient audit evidence being presented in relation to 03 account subjects with a value of Rs.2,442,797 it was not possible to satisfactorily monitor them during the audit.	Accepted.	Proving evidence should be presented.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.8,712,211 as compared with the excess expenditure over revenue amounted to Rs.12,036,604 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 Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.
(i) Rates and Taxes	1,360,500	1,534,240	973,440	44,400	1,014,700	1,617,910	1,170,710	497,600
(ii) Rent	11,802,082	10,058,192	9,588,502	5,285,163	8,919,882	8,793,831	4,316,508	4,815,473
(iii) License Fees	318,000	423,530	335,530	226,425	397,975	520,755	284,180	356,425
(iv) Other Revenue	19,163,175	7,502,844	7,130,990	7,369,404	31,105,544	5,675,559	6,929,288	6,997,550
	<u>32,643,757</u>	<u>19,518,806</u>	<u>18,028,462</u>	<u>12,925,392</u>	<u>41,438,101</u>	<u>16,608,055</u>	<u>12,700,686</u>	<u>12,667,048</u>

2.2.2 Performance in Revenue Collection

Following are the observations regarding the revenue collection performance of the sabha.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) According to Section 134 (i) of the Pradeshiya Sabha Act No. 15 of 1987, rates and taxes should be levied on the basis of the annual value of an immovable property or a type of immovable property located in the developed areas of the council area, but new areas had not been identified and levied as per the instructions of the Act.	Accepted.	Necessary actions should be taken to charge the taxes.
(ii) Outstanding industrial tax of Rs.15,000 business tax of Rs.29,400 trade license fee of Rs.226,425 and water charges of Rs.877,710 had not been collected.	- Do -	Actions should be made to recover the arrears of tax.
(b) Rent		
(i) By the end of December 2022, machine rental income of Rs.504,956 had not been collected.	Actions will be taken to recover the arrears promptly.	Arrears should be recovered.
(ii) Arrears of rent income of Rs.4,780,213 had to be recovered as at 31 December of the year under review.	Accepted.	- Do -

(c) Other Revenue

Court fines of Rs.3,355,922 and stamp duty of Rs.808,500 as at 31 December 2022 had not been collected. Only Rs.1,356,169 should be received. Actions should be made to recover the arrears.

3. Operational Review

Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
The cab provided by the Chief Secretariat for the use of the council since 1993 was not able to be repaired and had been taken out of service and remained idle.	Action will be taken to hand it over to the Chief Secretary's office.	Actions should be made for immediate handover.