

Pallepola Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pallepola Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Sabhas Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Pallepola Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 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 Generally Accepted Accounting Principles, 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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 the Pradeshiya Sabha 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.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented 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 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) The retention money amounting to Rs.199,774 to be received from the Department of Local Government and payable to the contractual society relating to a development project had not been brought to account under Project debtors and creditors.	Action will be taken to correct it in the accounts for the year 2021.	Account balances should be corrected.
(b) The value totalled Rs.1,767,759 of the backhoe machine, tractor and the Cab provided by the Ministry of Provincial Council and Local Government had been understated in the account.	Action will be taken to correct it in the accounts for the year 2021.	Account balances should be corrected.
(c) According to the survey conducted during the year under review on the advertisement boards, arrears of revenue for 86 advertisement boards amounting to Rs. 120,200 had not been accounted for and action had not been taken to recover the relevant charges.	Action will be taken to recover the dues in the year 2021.	Action should be taken to account for and recover the dues.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
The balance of 02 items of account totalled Rs.16,116,927 in the financial statements and it was Rs.8,521,102 according to the total balance shown in the relevant subsidiary documents. Accordingly, there was a difference of Rs.7,595,825.	Action will be taken to write off the amount that cannot be recovered and to collect the amount recoverable.	Account balances should be corrected.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
As the documents and schedules were not submitted to confirm balances totalling Rs. 6,414,832 of 02 items of account, those could not be satisfactorily verified in audit.	Schedules will be prepared in the year 2021 and action will be taken to write off the unidentified balances.	Schedules should be prepared and submitted.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs.3,434,637 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.1,782,172 .

2.2 Revenue Administration

Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a) The arrears of Rates amounting to Rs.241,620 that remained recoverable as at 31 December of the year under review had not been recovered in terms of Section 158 (1) of the Pradeshiya Sabha Act, No.15 of 1987.	Action will be taken to recover the arrears.	Action should be taken to recover the arrears.

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| (b) | Arrears of water charges of Rs.536,066 as at 31 December 2020 relating to 06 water schemes of the Sabha had not been recovered. | Action will be taken to recover the arrears. | Action should be taken to recover the arrears. |
| (c) | Court fines of Rs.191,235 and Stamp fees of Rs. 825,857 due from the Chief Secretary of the Provincial Council and the other authorities as at 31 December of the year under review had not been recovered. | Action will be taken to write off the receivable revenue that cannot be recovered. | Action should be taken to recover the arrears. |

3. Operating Review

The following matter was observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Procurement Management

Audit Observation	Comment of the Sabha	Recommendation
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Plumbing accessories worth Rs. 370,992 had been purchased without being complied with the provisions in Pradeshiya Sabha (Financial and Administration) Rules 207 of 1988.	Action will be taken to correct it in the future.	Tender procedure should be followed properly.