

Hakmana Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hakmana Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, Statement of Changing 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the 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 Hakmana Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

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 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 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 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 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 Municipal council/ Urban council/ Pradeshiya Sabha (As applicable) 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) Financial Statements of the Pradeshia Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

(b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements

1.6 Audit observations regarding the preparation of financial statements

1.6.1. Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Over provision of Rs.864,288 had been made under industrial creditors at the end of the year under review.	It will be corrected when preparing the account of 2021	Should be accounted correctly.
(b) Capital Contribution received during the year under review amounting to Rs. 2,586,690 had been incorrectly deposited to the General Current Account and to correct this, the Capital Contribution Account had been debited Rs. 2,586,690 Capital Contribution balance had been understated by that amount.	It has been accounted relevant the documents.	Should be accounted correctly.
(c) Credit provisions had not been made for the audit fees payable during the year under review.	Actions will be taken to correct in Future.	Should be accounted correctly.
(d) The court fines received for the year 2017 amounting to Rs. 90,669 had been accounted as court fines due at the end of the year under review.		

1.6.2 Non reconcile control account or reports

Audit Observation

There was a difference sum of Rs. 16,892,939 in between a balance of Rs. 92,573,173 in the value of 10 accounting items in the financial statements and value of Rs. 75,680,234 in relevant utility registers/sub registers

Comment of the Sabha

Actions will be taken to correct by reconcile the balances in the coming years.

Recommendation

Action should be taken to correct the accounts by comparing the changes in the relevant balances.

1.6.3 Suspense Accounts

Audit Observation

The suspense debit balance of Rs. 873,211 which had been coming forward since 2010 had not been settled during the year under review

Comment of the Sabha

Actions will be taken to correct in future

Recommendation

It is necessary to look into this and make the necessary adjustments in the accounts and settle the suspense account.

1.6.4 Lack of Documentary Evidence for Audit

Audit Observation

Due to non-submission of required information, for 09 accounting items amounting to Rs. 24,331,838 could not be satisfactorily examined during the audit.

Comment of the Sabha

Actions will be taken to correct in the future.

Recommendation

Evidence confirming the balance in the financial statements should be submitted.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 9,012,717 as compared with against the revenue over recurrent expenditure amounted to Rs. 11,933,283 in the preceding year.

2.2 Performance of Revenue Collection

2.2.1 Assessment

Audit Observation	Comment of the Sabha	Recommendation
There was an arrears amount of Rs.1,063,212 at the end of the year under review.	Will contribute the arrears by holding a mobile service.	Arrears of income should be recovered promptly

2.2.2 Shop Rent

Audit Observation	Comment of the Sabha	Recommendation
There was an arrears of shop rent amounting to Rs.561,012 as at the end of the year under review.	It will be charged in the future.	Arrears of income should be recovered promptly.

3. Operational Review

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 Management In efficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) As at 12 January 2020, 60 businesses had not obtained environmental licenses. The arrears of license fee was Rs. 264,000 and the process fee was Rs. 156,000.	Actions will be taken to issue license in the future	Gazette notification should be followed

- (b) A fee of Rs.212,265 had not been charged for 79 Advertising Board installed in the Sabha area and a survey had not been held to confirm when the holdings were displayed. Action will be taken to correct in next year..

3.2 Operational In efficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Business tax had not been levied on 04 transmission towers set up by 04 telephone companies in the Council area as at 31 December 2020.	The action will be taken in the future	Actions should be taken in accordance with the advice letter.
(b) Although 20 unauthorized constructions have been reported in the Pradeshiya Sabha area from 2018 to 2019, only 19 of them had been issued notices regarding unauthorized constructions by the 12 January 2021, the date of the audit.	The advice had not been received to file a case and would proceed with the approval of the council after receiving the advice.	Action should be taken immediately against unauthorized constructions.