

Anamaduwa Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Anamaduwa Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial operations and the statement of changes in net assets for the year then ended and significant accounting policies and other explanatory information 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 Sabha 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 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 Anamaduwa 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 on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 (Responsibilities of Auditors 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 exercise 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, 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 Other Legal Requirements relating to Reports

Special provision with regard to the following were included in the National Audit Act No. 19 of 2018.

- The financial statements of the Pradeshiya Sabha were similar to the previous year as per the requirement pointed out in Section 6(1)(d)(III) of the National Audit Act No. 19 of 2018.
- Recommendations made by me during the previous year were included in the financial statements presented in terms of requirements pointed out in Section 6(I) (d) (IV) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations with regard to Preparation of Financial Statements

1.6.1 Non-compliance with Generally Accepted Accounting Principles.

Audit Observations	Comments of the Sabha	Recommendation
<p>(a) Action had not been taken to account the value of lands on which buildings belonging to the Sabha situated, playgrounds utilized, controlled and maintained by the Sabha, lands on which community halls situated and 16 cemeteries.</p>	<p>The financial statements will be prepared and presented in accordance with Generally Accepted Accounting Principles while preparing the financial statements for the year 2021.</p>	<p>Preparation of financial statements in accordance with Generally Accepted Accounting Principles is the most suitable practice.</p>
<p>(b) A loan amounting to Rs 2,394,510 that should be settled within next 12 months, out of the loans obtained from the Local Loan and Development Fund, for two water supply projects had been shown in the financial statements as noncurrent liabilities instead of showing as current liabilities.</p>	<p>The financial statements will be prepared and presented in accordance with Generally Accepted Accounting Principles while preparing the financial statements for the year 2021.</p>	<p>Preparation of financial statements in accordance with Generally Accepted Accounting Principles is the most suitable practice.</p>

1.6.2 Accounting Deficiencies

Audit Observations	Comments of the Sabha	Recommendation
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(a) Machineries and office equipment at the total value of Rs.149,950 purchased by the Sabha during the year under review had not been accounted under the fixed assets.	It will be rectified through journal entries while preparing the final accounts for the year 2021.	Expenditure in capital nature should be correctly identified and accounted.
(b) The total value of Rs.1,323,150 payables to the contractors as at 31 December 2020 for construction of fish stalls on the land of the Pallama weekly market and landscaping of the Samagigama preschool had been accounted under the general creditors and as such the balance of the general creditors had been overstated by the same amount.	It will be rectified through journal entries while preparing the final accounts for the year 2021.	Action should be taken to rectify through journal entries.
(c) Constructions at the total value of Rs.3,491,464 constructed by spending the Sabha fund in the year 2020 had not been accounted under the land and building.	I inform you that it will be rectified through journal entries while preparing final accounts for the year 2021.	All the asset in capital nature belonging to the Sabha should be capitalized.
(d) A total value of Rs. 114,770 payable to the suppliers in the year under review had not been accounted under the creditors.	I inform you that it will be rectified through journal entries while preparing final accounts for the year 2021.	Expenditure for the accounting year should be correctly identified and accounted.
(e) The retention money at the value of Rs.50,000 for construction of hut at the extent of 18X90 for trading areca nut and betel on the land of the Anamaduwa weekly market under the construction works of the Sabha in the year 2020 had not been accounted under the deposits.	I inform you that it will be rectified through journal entries while preparing final accounts for the year 2021.	Action should be taken to rectify through journal entries.

1.6.3 Un reconciled Control Accounts or Record

Audit Observations	Comments of the Sabha	Recommendation
A difference of Rs.737,830 was observed between the deposits shown under the current liabilities in the statement of financial position and the deposits shown under the schedules	I inform you that it will be rectified through journal entries while preparing the annual accounts for the year 2021	Action should be taken to rectify through journal entries.

1.6.4 Lack of Documentary Evidence for Audit

Audit Observations	Comments of the Sabha	Recommendation
Evidence had not been presented for audit relating to 04 items of accounts at the total value of Rs. 22,345,631.	Schedules are being prepared at present. I inform you that action will be taken to submit it in future.	Documentary evidence confirming the account balance shown in the financial statements and the relevant documents should be submitted.

1.7 Non-compliance

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

Instances of non-compliance with laws, rules, regulations and management decisions are shown below.

Reference to Laws, Rules Regulations and Management decisions	Value	Non-compliance	Comments of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka	<u>Rs.</u>			
F.R 571	2,759,380	Action had not been taken in terms of Financial Regulations with regard to 213 deposit balances such as tender deposits, miscellaneous deposits and stall rental agreement deposits which were exceeded for more than 02 years.	I inform you that action in terms of FR 571 will be taken in future with regard to deposits exceeded for more than 02 years.	Action in terms of Financial Regulations should be taken.

2. Financial - Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.1,441,473 as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.7,763,164.

2.2 Revenue Administration

2.2.1 Performance of the Collection of Revenue

Audit Observations	Comments of the Sabha	Recommendation
Rates		
Action had not been taken to recover the balance of arrears of rates amounting to Rs. 9,173,337 and no any other action had been taken against the persons who have failed to pay tax except informing them in writing for recovery of arrears of rates.	Collection of rates had decreased due to prevailing corona epidemic and I inform you that action will be taken in future to expedite the recovery of arrears of rates.	Action should be taken to recover within the year for rates billed annually.
Rent		
Action had not been taken to recover the balance of arrears of stall rent and lease rent amounting to Rs.1,174,079.	The recovery of arrears of stall rent and lease rent had delayed to a certain extent due to prevailing corona epidemic and I inform you that action will be taken in future to expedite the recovery of the balance of arrears.	Action should be taken to expedite the recovery of arrears of stall rent and lease rent.
Court Fines and Stamp Fees		
Court fines amounting to Rs.4,002,614 and stamp fees amounting to Rs.7,179,506 had to be recovered as at 31 December 2020 from the Chief Secretary of the Provincial Council	I inform you that action will be taken to recover the court fines of Rs.4,002,614 and the stamp fees of Rs.7,179,506.	Entire court fines and stamp fees for the year under review should be identified and recovered.

3. Operational review

3.1 Performance

Matters observed with regard to fulfilling, regulations and administration of facts relating to public health, public utility services and public roads, with the protection of comfort convenience and welfare of the people by the Sabha under Section 3 of the Pradeshiya Sabha Act, are shown below.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) According to the announcement published in Part (iv) (b) of the Gazette of the Democratic Socialist Republic of Sri Lanka dated 27 December 2019, a fee at the rate of Rs. 100 per month should be recovered for parking three wheelers within the area of authority of the Anamadduwa Pradeshiya Sabha. However, a sum of Rs 126,000 had to be recovered from 105 three wheelers belonging to 12 three-wheeler parks.	The problem existing in respect of proclamation of these vehicle park as a common vehicle park is being solved now. Action will be taken to recover the income receivable by the Sabha from all vehicles by taking prompt action to publish it.	Action should be taken to recover fees from all three wheels within the area of authority of the Pradeshiya Sabha as per the relevant Gazette notifications.
(b) A sum of Rs. 155,000 had been paid to a private institute on 28 January 2020 with the approval of the Chief Clark and the certification of the Chairman based on the recommendation made by the Mechanical Engineer of the Department of Local Government without carrying out a physical inspection about the repairs made to a motor grader machine.	A copy of the audit query was forwarded to the Mechanical Engineer of the Department of Local Government of the North, Western province by the letter dated 08. 04.2021 with the expectation of obtaining clarification and reply for the audit query. Accordingly, I inform you that I will take further action and report to you immediately after receiving reply for that letter.	Action should be taken to approve the payment after checking whether, all the procedures were carried out correctly relating to supply of goods, works or services prior to making payment.