

Wennappuwa Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Wennappuwa 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 Wennappuwa 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 Accounting Deficiencies

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) The relevant journal entries had not been used for accounting the discount amounting to Rs.286,242 given for rates in the year under review.	Action will be taken to rectify through journal entries.	Action should be taken to account correctly.
(b) Arrears of notice board / banner fees amounting to Rs.264,200 as at 31 December of the year under review had not been shown in the accounts.	Action will be taken to rectify through journal entries.	Action should be taken to account correctly.
(c) Capital assistance receivable as at 31 December of the year under review amounting to Rs.4,935,201 had not been accounted.	Action will be taken to rectify through journal entries.	Action should be taken to account correctly.
(d) Revenue assistance receivable as at 31 December of the year under review had been overstated in the accounts by Rs.675,000.	Action will be taken to rectify through journal entries.	Action should be taken to account correctly.

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| (e) | Business tax amounting to Rs.155,400 and industrial tax amounting to Rs.1,000 receivable as at 31 December of the year under review had not been brought to account. | Action will be taken to rectify through journal entries. | Action should be taken to account correctly. |
| (f) | Income from renting vehicles amounting to Rs.465,012 and gully bowser income amounting to Rs.55,750 for the year under review deposited in the deposit account had not been brought to account as income of the year under review. | Action will be taken to rectify through journal entries. | Action should be taken to account correctly. |
| (g) | The value of 10 items of furniture and fittings and machineries amounting to Rs.691,900 purchased during the year under review had not been capitalized. | Action will be taken to rectify through journal entries. | Action should be taken to account correctly. |
| (h) | A sum of Rs.270,750 paid to the Wayamba Development Authority in the year 2019 as initial payment for CAT 2020 software and the value of the vehicle park of sub office, Kirimetiya constructed at the cost of Rs.4,437,667 had not been capitalized.\ | Action will be taken to rectify through journal entries. | Action should be taken to account correctly. |
| (i) | Action had not been taken to physically count the stocks such as stationeries, street lamps and equipment at the stores as at 31 December 2020 and bring to the account such stocks by making necessary adjustment. | Action will be taken to rectify in the year 2021. | Action should be taken to account correctly. |
| (j) | Action had not been taken to assess and bring to account the market value of land plots received by the Pradeshiya Sabha as deed of gift and the plots of common land handed over by the auctioning company with regard to allotment of land. | I kindly inform you that action will be taken in this regard. | Action should be taken to account correctly. |

1.6.2 Unauthorized Transactions

Audit Observations

One hundred and fifty bill books in the name of the preschool development society had been printed by the Sabha by spending a sum of Rs.14,900 in the years 2018 and 2019 for 15 preschools controlled by the Sabha. A sum of Rs.6,821,408 had been collected by the month of April 2021 from the students of the relevant preschools through receipts which were mentioned the name of the Sabha. Fifteen bank accounts were opened without proper approval and the above amount had been deposited and spent from that amount. Income and expenditure thereon had not been disclosed in the financial statements. The relevant accounts were not subjected to any audit. Similarly, a sum of Rs.15,731,976 had been spent by the Sabha for expenses of the preschools from the Sabha fund during the year under review.

Comments of the Sabha

According to the Statute, necessary receipts were given to the preschools through Pradesiya Sabha. Bank accounts were opened for all the preschools in accordance with Section 5 (vii) of the above-mentioned Statute. I inform you that action will be taken in future in this regard.

Recommendation

Revenue should be disclosed in the financial statements and accounts relating to the expenses should be presented to audit.

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.94,011,251 as compared with the corresponding excess of revenue over recurrent expenditure for the previous year amounted to Rs.133,088,555.

2.2 Revenue Administration

2.2.1 Performance of Collection of Revenue.

Audit Observations

(a) Rates and Taxes

A sum of Rs.16,929,998 accounted as rates billed for the year under review had included several other types of revenues.

Comments of the Sabha

I will take action to show the revenue heads separately.

Recommendation

The source of revenue should be identified and accounted separately.

(b) Rent

According to the subsidiary registers, rent dues as at 31 December of the year under review amounted to Rs.5,251,276. Action should be taken to recover or to take alternative measures (legal) with regard to balances that could not be recovered. Action should be taken to expedite the recovery of arrears of tax.

3 Operating Review

Matters observed with regard to fulfilling regulation 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.

3.1 Management Inefficiencies.

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) The entire area of the upper floor of the Wennappuwa old business complex at the extent of 6878 square feet not portioned into rooms had been provided to 03 businesses companies free of charge for utilization without calling for tenders legally. As a result, the Sabha had deprived the income from these stalls which having the economic value.	I inform you that prompt action will be taken to implement it.	Action should be taken to recover the relevant charges.
(b) Action had not been taken to settle the value of Rs.5,506,379 retained in the deposits account as retention money from the year 2015 to year 2019, by making payment after checking the progress of the relevant construction works or take into revenue.	I inform you that action will be taken to bring to the revenue.	Action should be taken to settle the deposits.