

Attanagalla Pradeshiya Sabha - 2020

Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Attanagalla Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, 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 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 financial statements give a true and fair view of the financial position of the Attanagalla Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I express qualified opinion 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 Sri Lanka Public Sector Accounting Standards, 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 Pradeshia 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 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshia 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 recommendations which I made on financial statements for the preceding year has been included as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations in connection the Preparation of Financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
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(a) Due to the understating of Rs.61,200 in the fee for the service account for the year under review, the surplus in the statement of comprehensive income had been understated by the same amount.	This will be corrected by journal entries in the year 2021.	Actions should be taken to enter the values accurately.
(b) The stock of Virus Guard consumer items purchased in the year under review valued at Rs.70,550 had been capitalized under computer software.	This will be corrected by journal entries in the year 2021.	It should be accounted for as an expenditure.
(c) The T 2309 Toners and the Epson Ribbons purchased in the year under review valued at Rs.73,750 had been capitalized as a purchase of printers.	This will be corrected by journal entries in the year 2021.	It should be accounted for as an expenditure.
(d) The amount spent in the year under review for the purchase of 1 wheelbarrow valued at Rs.6,500 and a ground drill valued at Rs.4,200 had been capitalized under roads, culverts and bridges.	This will be corrected by journal entries in the year 2021.	It should be accounted for as an expenditure.

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| (e) | As a result of failure to account for the repair maintenance totalled to Rs.1,560,190, the surplus in the statement of comprehensive income had been overstated by the same amount. | This will be corrected by journal entries in the year 2021. | Actions should be taken to account for the values accurately. |
| (f) | As a result of the stock of library books amounting to Rs.19,136,354 as per the Board of Survey Report as at 31 December 2020 had been shown as Rs.17,932,689 in the financial statement of the year under review, a sum of Rs.1,203,665 had been understated and it had been shown under the current assets in the statement of assets and liabilities. | This will be corrected by journal entries in the year 2021. | Reasons for not reconciling with the Board of Survey Report should be found and corrected with remedies. |
| (g) | Although it was stated that the computer software is recognized as a non-current assets in the financial statements as per accounting policies, the software system valued at Rs.1,460,000 used for many years for operational rates, other income and arrears of revenue management and warehouse management had not been capitalized. | This will be corrected by journal entries in the year 2021. | The software system needs to be capitalized. |
| (h) | As a result of failure to identify and account for a sum of Rs.305,555 receivable as administrative expenditure from the Divisional Secretariat for the operation of decentralized contracts during the year under review as revenue, the surplus in the statement of comprehensive income had been understated by the same amount. | The administrative expenses to be received should be Rs.305,555 and the remaining amount of Rs.394,200 is the amount for the relevant project. Therefore, accounting for the administrative expenses amounting to Rs.305,555 will be furnished by a journal entry. | Administrative expenses to be received should be properly accounted for. |
| (i) | As a result, out of the capital grants relating to the year under review amounting to Rs.322,622,196, a sum of Rs.33,262,220 pertaining to the year was not transferred to the transfers from government for non-recurrent expenses account, the surplus in the statement of comprehensive income had been understated by the same amount. | There are no identified capital grants for the year 2020 and it will be adjusted in the preparation of accounts for the year 2021. | Arrangements should be made to account for as per the standards for capital grants. |

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| (j) | Even though the property loan interest expense amounting to Rs.717,982 had been adjusted in the financial statements a ledger account with regard to that had not been prepared and the property loan interest expenses had been accounted for as a settlement of debtor balances without debiting to the relevant expenditure code. | Arrangements will be made to maintain a ledger account for the property loan interests from the year 2021. | It should be accurately accounted for. |
| (k) | A sum of Rs.216,844,950 that was accounted for as creditors regarding 522 projects completed to be reimbursed during the year under review had not been accounted for as debtors. | Actions will be taken to correct by journal entries in the year 2021. | It should be accounted for as debtors. |
| (l) | Although the assets and liabilities should be categorized under the correct category in terms of the circular of the Commissioner of Local Government, Western Province, No.LGD/09/2019/01 dated 27 August 2020, the assets valued at Rs.13,903,523 had been accounted for under other items. Although those fixed assets required to be depreciated under the relevant classifications, due to not being categorized under the correct category, depreciation for the year under review had not been calculated and accounted for by not being able to determine exact depreciation rates. | It is informed that the assets under other items will be re-classified and calculated depreciation for the year 2020 and accounted for by the journal entries accurately in the preparation of the accounts for the year 2021. | Depreciation should be calculated and accounted for. |
| (m) | As the depreciation had not been calculated and brought to accounts for the year 2020 for the depreciable fixed assets totalled to Rs.2,887,276,847 the surplus in the statement of comprehensive income had been overstated by Rs.224,165,989 and the property, plant and equipment balance in the statement of assets and liabilities had been overstated by Rs.224,165,989. | Actions will be taken to correct by journal entries in the year 2021. | Depreciation should be calculated and accounted for. |
| (n) | The sundry creditors control accounts had been understated by Rs.4,000. | Actions will be taken to correct by journal entries in the year 2021. | Accurate amount should be accounted for. |
| (o) | As a result of the understating of Rs.4,000 for administrative expenses 01-1400 the surplus in the statement of comprehensive income had been overstated by the same amount. | Actions will be taken to correct by journal entries in the year 2021. | Accurate amount should be accounted for. |

- (p) The surcharge payable on the late payment of EPF instalments amounting to Rs.162,151 had not been disclosed in the financial statements. This will be corrected by a journal entry in 2021. The surcharge should be disclosed in the financial statements.

1.6.2 Lack of Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
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The information required pertaining to 4 account items totalled to Rs.563,614,382 had not been submitted to the audit.	It will be corrected in when preparing the accounts of 2021.	The Evidences that confirms the account balances shown in the financial statements are required to be submitted.

1.7 Non-compliance

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571(1)	Actions had not been taken to credit the Agreement Security Deposits, Tender Security Deposits, Contract Security Deposits and Miscellaneous Deposits lapsed 2 years amounting to Rs.7,946,976 to the government revenue.	Although the relevant parties are informed about it no response has been received due to the situation in the years 2019/2020/2021. If they are notified and do not respond, actions will be taken to credit to the government revenue.	Actions should be taken in accordance with Financial Regulations

2. Financial Review

2.1 Financial Results

The surplus of the Sabha for the year ended 31 December 2020 as per the financial statements submitted was Rs.82,341,448 and the corresponding surplus for the preceding year was Rs.91,466,240.

2.2 Revenue Administration

2.2.1 Trade Stall Rent

Audit Observation

Comments of the Sabha

Recommendation

(a) The previous cash balance of Rs. 3,276,363 for more than 10 years to be received from 23 trade stalls belonging to Veyangoda sub-office was unable to recover due to lack of formal agreements and arrangements were being made to present to the Sabha and refer to the Governor for approval to be written off.

Arrangements were made to seal and take over the 05 shops (Rs.667,126) out of the 23 shops in the Veyangoda sub office by the Sabha and to re-tender. However, it was not be able to take legal actions against trade stall owners who have not paid in advance in these trade stalls due to the lack of a formal agreement. Although they are currently in discussions to enter into a new agreement, the attempt also failed due to problems with the errors in the physical design of that market. Preliminary works for the new construction is currently being carried out by the Urban Development Authority. This has been a problem for many years. Accordingly, steps are being taken to submit the aforesaid amount of money to the Sabha for the approval and submit it to the Governor for approval.

Before leasing out the trade stalls, a legal agreement should be entered into.

(b) The arrears of Rs.768,610 for more than 10 years for the 07 sealed trade stalls in Veyangoda Sub- Office within the total arrears of

A sum of Rs.1.1 Million has been recovered from this amount by March 2021. Problems have arisen to recover the balance on the current situation occurred in

Measures to recover the arrears of trade stall rent should be improved.

balance amounting to 2021. Out of Rs.1,509,755/= at Rs.2,435,314 as at 31 Veyangoda Sub-Office, a sum of December 2020 had remained Rs.768,610/= has not been without being able to take recovered as arrears for more than legal actions for the recoveries 10 years in 7 trade stalls sealed. because of the agreements. Similarly, there is an impediment and physical design issues in to take legal actions due to the the trade stalls. agreement problem in these trade stalls and the physical design problems in it.

3. Operating Review

3.1 Performance

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

3.1.1 Solid Waste Management

Audit Observation

A sum of Rs. 10,895,000 had been paid to the Atanawatte Garbage Yard for the disposal of garbage in the year 2020 and permission from the relevant local authority in accordance with the tender conditions 07, written consent from the owner of the landfill in terms of Condition 08 and the environmental license had not been obtained from the Environmental Authority.

Comments of the Sabha

For that garbage disposal tender, none of the bidders had fulfilled the aforesaid tender terms on bidding. Nevertheless, the amount of garbage collected daily was 15 tons and could not be removed at that time. This has been a critical situation. Accordingly, if the tenderers have been rejected, the company could have gone into a serious crisis as it had no alternative. Considering all of this although those tender conditions were not met, the tender was awarded to the lowest bidder considering as an urgent need.

Recommendation

Tender conditions should be followed.

3.2 Management Inefficiencies

Audit Observation

Due to the irregularity and negligence of the manner in which the Sabha has acted in relation to the land case No.38980 a sum of Rs.1,876,800 had been paid to the complainant on 16 May 2019 from the Fund of the Sabha. Actions had not been taken to conduct an inquiry to determine the responsibility even by 10 April 2022 and to recover the loss to the Sabha.

Comments of the Sabha

The judgement of the court had to be enforced in the land case No.39/380 due to a road dispute occurred in the year 1996. Accordingly, it has been handed over to the Office of the Assistant Commissioner to carry out an investigation to determine its responsibilities to settle the amount of Rs.1,876,800 paid on 16 May 2019. Reminders have been sent to obtain that report.

Recommendation

The inspection report should be obtained as soon as possible and actions should be taken to recover the loss.