

Verugal Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Verugal Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020, Income and Expenditure Account, Cash Flow Statement for the year, 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 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 Verugal 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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Quarters were constructed for the officials of the council in the year 2014 at a cost of Rs.5,266,800, but this value had not been accounted until the end of the year under review.	It will be accounted in the financial statements for the year 2021.	The value of the quarters should be included in the financial statements.
(b) Solar energy street lamps worth Rs.7,743,120 were installed under the "Pura Neguma" program, but the value had been stated as Rs.2,731,000 in the accounts.	This value will be added in the next financial year.	The correct value of street lamps should be included in the financial statements.

2. Financial Review

2.1 Financial Result

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.4,222,602 as compared with the excess of revenue over recurrent expenditure amounted to Rs.1,738,646 in the preceding year.

2.2 Revenue Collection Performance

Audit Observation	Comment of the Council	Recommendation
Rent		
Actions had not been taken to recover Rs. 580,524 worth of arrears of shop rents, drinking water distribution fees and arrears of machine rents, which were due for a period of 03 to 10 years.	It was not possible to obtain as mentioned in the budget plan.	Actions should be made to collect the arrears of income in time.

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 Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) In the year under review, the council had allocated provision of Rs.2,300,000 for the construction of a vehicle cleaning station, but the project had not been completed during the stipulated period.	This has been credited to the deposit account against the financial procedures. It will be rectified in the future.	Actions should be made to complete the project effectively within the stipulated time.
(b) The management had not been taken actions to obtain the land title deeds, to document in the fixed assets register, and to obtain the documents verifying the value for a sum of Rs.55,357,446 for land and buildings, fixed deposits for port routes, advance payments etc. shown in the financial statements.	Necessary actions will be taken.	Documents related to assets should be maintained properly.

3.2 Deficiencies in contract administration

Audit Observation	Comment of the Council	Recommendation
Although, Solar energy street lamps worth Rs.7,743,120 installed on 30 June 2014 under the "Pura Neguma" project, were damaged and repaired, but due to non-continuous inspection of batteries and energy saving plates, most of the lights had been remained idle.	Further action will be taken by presenting information related to the current feasibility of the relevant institution to the council.	Action should be taken to use solar energy street lamps.