

Imaduwa Pradeshiya Sabha - 2021

1. Financial Statement

1.1 Adverse Opinion

The audit of the financial statements of the Imaduwa Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, 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. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Imaduwa Pradeshiya Sabha as at 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Adverse Opinion

I expressed an adverse opinion 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 adverse 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 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 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) Financial Statements of the Pradeshiya 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 Council -----	Recommendation -----
(i) In the statement of financial position, the total assets as at 31 December 2021 were Rs.158,500,785, and the total rights and liabilities, which should be equal to each other, were Rs.205,161,320, there was a difference of Rs.46,660,535.	Action will be taken to rectified.	Should be properly accounted.
(ii) There were 08 account balances of Rs.153,475 as at 31 December 2021, which were not included in the statement of financial position included in the Trial balance.		
(iii) The Stock on hand as at 31 December of the year under review was Rs.793,357 which had been over stated by Rs.3,884,793 more than as Rs.4,678,150 in the statement of financial position.		
(iv) In the statement of financial position as at 31 December 2021, cash and cash equivalents should be Rs.11,621,711, which was overstated by Rs.3,498,448 as Rs.15,120,159.		

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| <p>(v) A debtor balance of Rs.27,008,792 as at 31 December 2021 was shown under current liabilities.</p> | | |
| <p>(vi) The deficit of the year under review Rs.6,114,242 had not been adjusted to the Accumulated Fund Account, and in the Statement of Changes in Net Assets as on 31 December 2021, the balance as at 01 December 2021 should be Rs.37,146,498, which was Rs.30,942,786 under stated by Rs.6,203,712.</p> | | |
| <p>(vii) The surplus for the period in the Statement of Changes in Net Assets was Rs.6,114,242 as at 31 December 2021 had been adjusted instead of Rs.6,016,721 in the account of contribution to income from capital input, and Rs.2,283,962 as capital grants for the year and Rs.5,565,337 as previous year adjustments. After making adjustments, the balance was taken as Rs. 123,782,602 as at 31 December 2021, and it was observed during the audit that these figures are false.</p> | <p>Action will be taken to rectified.</p> | <p>Should be properly accounted .</p> |
| <p>(viii) There were 04 accounting items totalling Rs.2,013,808 in which a credit note related to the debit note entered in the general ledger has not been entered in the general ledger.</p> | | |
| <p>(ix) 07 accounts in the general ledger had debit notes totalling Rs.4,993,016, and the related credit notes were not included in the general ledger, and 21 accounts in the general ledger had credit notes totalling Rs.19,750,478, and the related debit notes were not included in the general ledger had not been entered in the General Ledger. Also, the council did not have the information related to the value of Rs. 24,743,494 entered into debit or credit accounts.</p> | | |

- (x) The value to be adjusted to the income and expenditure account of 28 income and expenditure accounting items in the general ledger was Rs.59,918,334 as at December 31 of the year under review, however it was Rs.56,058,767 and a difference of Rs.3,859,567 was observed.
- (xi) The value of 07 items of land and buildings value at Rs.1,379,517 the value of 14 items of machinery and machine valued at Rs.808,297 and the value of 04 types of furniture and fixing worth Rs.596,115 had not been capitalized during the year under review.
- (xii) During the year under review, the single cab valued at Rs.1,030,000 and the tractor valued at Rs.833,000 had not been removed from the financial statements.
- (xiii) During the year under review, purchases of electric stock price of Rs.639,409 and issues of Rs.810,965 had not been accounted.
- (xiv) During the year under review, purchases of general inventory stock amounting to Rs.403,378 and issues of Rs.305,187 had not been accounted.
- (xv) Ayurvedic stocks valued at Rs.495,000 purchase and donated during the year under review and Ayurvedic stocks valued at Rs.241,863 issued during the year had not been accounted.
- (xvi) During the year under review, the business tax billings of the sub-office were understated by Rs.365,030, while the rent of the multi-purpose building had not been accounted by Rs.504,000.
- (xvii) During the year under review, the assessment tax of Rs.592,390 had been billed as Rs.1,472,085 by Rs.879,695 over.

Action will be taken to rectified.

Should be properly accounted.

- (xviii) The capital grant receivable amounting to Rs.17,739,881 and industrial creditors amounting to Rs.18,549,125 had not been accounted in relation to the year under review .
- (xix) The provision of Rs.1,468,297 had not been made for expenditure creditors and audit fees during the year under review.
- (xx) The Salary and Remuneration Creditors amounting to Rs.417,326 and Employee Provident Fund Creditors amounting to Rs.42,140 had not been accounted during the year under review.
- (xxi) Fixed deposit interest receipts of Rs.264,540 had not been accounted during the year under review.
- (xxii) The balance of the loan payable to the Local Credit and Development Fund was under-accounted by Rs.157,670 during the year under review.
- (xxiii) According to the combined vote summary of 18 expenditure items in the year 2021, the value was Rs.237,350,152, and it had been accounted as Rs.22,222,217 in the vote ledger, therefore a difference of Rs.215,127,935 had been observed.
- (xxiv) A balance of Rs. 5,414,018 was adjusted to the income and expenditure account of 06 income items which were not accounted for in the ledger in relation to the year under review.
- (xxv) Estimated court fines of Rs.1,100,000 and stamp duty of Rs.10,900,000 had not been accounted in the year under review.
- (xxvi) The discounts received on the purchase of library books amounting to Rs.86,198 during the previous year had not been accounted.

Action will be taken to rectified.

Should be properly accounted .

(xxvii) The capital asset repair and maintenance expenses under the last year's public administration program, were under-accounted by Rs.82,719. Action will be taken to rectify. Should be properly accounted.

1.6.2 Non-reconciled Account or Records

Audit Observation	Comment of the Council	Recommendation
A difference of Rs.15,298,337 was observed between the balances related to 22 accounting items shown in the financial statements and the balances shown in their related utility documents as at December 31 of the year under review,.	Accepted the facts shown in the audit.	Differences should be identified and corrected.

1.6.3 Lack of Documentary evidence for Audit

Audit Observation	Comment of the Council	Recommendation
Due to non-submission of necessary information, 08 accounting items totalling Rs.14,489,132 could not be satisfactorily checked.	Action will be taken to settle the balances.	Evidence should be submitted to confirm the account balance shown in the financial statements.

1.7 Non compliances

1.7.1 Non compliances with Laws Rules and Regulations

Reference to laws rules regulations	Non compliances	Comment of the Council	Recommendation
Finance Regulations of the Democratic Socialist Republic of Sri Lanka			
Finance Regulation 571(1)(2)(3)	The Council did not have the information about the date of deposit, the name of the depositor, the matter of the deposit	Action will be taken to corrected in future.	Action should be done in accordance with the Financial Regulation.

related to house rent deposits, miscellaneous deposits, contract deposits of Rs.3,702,956 which existed before 01 January 2013. The details of the deposits were not checked and the Financial Regulations had not been followed.

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 2021 amounted to Rs. 12,130,963 as compared with against the excess of revenue over recurrent expenditure amounted to Rs. 11,871,849 in the preceding year.

2.2 Revenue Administration

Audit Observation

Comment of the Council

Recommendation

(a) Rates and Tax

It was Rs.936,097 from 541 assessment units, which included a balance of Rs.292,051 from 48 assessment units from 05 years ago as at 31 December of the year under review.

(b) business taxes

The amount of business tax receivable as at 31 December of the year under review was Rs.908,920 and it included a balance of Rs.177,450 which was outstanding for a period of 03 to 05 years.

Action will be taken to collected.

Balances due should be recovered.