

Valikamam East Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam East Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021, Income and Expenditure Account, 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, 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 Valikamam East Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2. Basis for Qualified Opinion

I expressed qualified 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 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 Practices, 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 Sabhas 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

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya 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 financial statements presented had included all recommendations made by me in the previous year except the observation made in paragraph 1.6.1 of this report as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Following observations are made.

Audit Observation	Comments of the Council	Recommendation
(a) Value Added Tax aggregating to Rs. 767,221 paid from the council fund for the construction work of Atchuveli Vegetable market in 2019, had not been capitalised; thus indicating the value of the non- current assets and capital reserve for capital expenditures had been understated.	The payment had been made separately and failed to include in the asset, will be included this payment in next financial statement.	It should be ascertained to include the value of the assets in accounts correctly and specified errors should be rectified.
(b) Even though the vehicles and Generators which was physically not available, valued aggregating to Rs. 1,469,915 had not been belonging to the sabha, had been included in the fixed assets in the financial statements for the year under review. Thus, indicating the value of the fixed assets and capital contribution for the capital expenditure had been overstated.	.It had been auctioned promptly in Annual Verification of Stores Items in 2016, had not been written off mistakenly from the final accounts of that year.	Action should be taken to confirm activities concluded and payment should be made accordingly as per accounting policies and the specified errors should be rectified.

1.6.2 Non-submission of Documentary Evidences for Audit

Item	Amount Rs.	Evidence not submitted	Comment of the Council	Recommendation
(a) Land and Buildings	9,603,368	Detail of opening balances and evidences	Opening balance of Rs. 9,603,368 exist as such over last ten years. However had been included in the	Action should be expedited regarding this matter.

accounts based on the documents and rendered to audit.

(b)	Capital Development Reserve	40,950,000	Prime documents for the value.	It is a Development Reserve. Woks could be started based on the estimates because of lagging payment of fund, prime document of council's decision No. 02/2022/02/28 was available.	Action should be taken to utilise those reserves efficiently.
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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..80,563,908 as compared with the excess of revenue over recurrent expenditure amounted to Rs.108,312,620 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation -----	Comments of the council -----	Recommendation -----
<p>Rate and Taxes Meaningful action had not been taken to recover the arrears of rate and tax aggregating to Rs. 13,182,797 on Land, houses, buildings and buildings constructed belonging to the places vested for pradeshiya sabha in terms of section 134 (i) of Pradeshiya sabha Act. No.15 of 1987 over 05 years.</p>	<p>Age analysis of the revenue arrears was available in page 27 of the financial statements.</p>	<p>Action should be taken to recover the arrears quickly.</p>

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	Comments of the Council	Recommendation
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(a) Action had not been taken to value the pick-up vehicle donated by RRAN institution in 2009.	Action will be taken to include the value soon after receipt of copy of the Vehicle Registration Book.	Meaningful action should be taken to value the assets and include in the financial statements of the sabha.
(b) A sum of Rs. 297,120,342 had been deposited in a fixed deposit account for the purpose of earning interest without being implemented development works	Not commented.	Action should be taken to utilize the fund for the development activities optimally without being idled.