

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Haliela 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 for the year ending on that date, Cash Flow Statement 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 which should be read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to the parliament are appeared 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 Haliela 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 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing 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

Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- (a) In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Pradeshiya Sabha are consistent with the preceding year.
- (b) In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Audit Observations on the preparation of Financial Statements

Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) As at 31 December in the year under review, Retentions amounting to Rs. 172,478 related with 5 construction contracts had not been taken to the general deposits account.</p> <p>(b) Construction value amounting to Rs. 389,426 related with renovation of a pre-school building constructed under the grants of provincial council in the year under review, had not been stated as construction debtors in the statement of financial position.</p>	<p>It has been mentioned that it would be rectified in the preparation of financial statements in the future.</p>	<p>Accounts should be correctly prepared</p>

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions are as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
Financial Regulation 371(1)	Action had not been taken to settle advances amounting to Rs. 415,117 which had been paid to 03 approved associations for 03 sub-roads in the year 2014.	It has been mentioned that action had been taken to recover or write off.	Advances should be settled.

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 under review had been Rs. 30,417,043 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 14,808,211 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Arrears of rates amounting to Rs. 1,040,205 of 2480 household units from the years 2018 and 2019 had not been recovered in the year under review.	It has been mentioned that action had been taken to recover.	Arrears of rents should be recovered.
(b) Arrears of rents amounting to Rs. 2,309,669 which has elapsed more than a year from Annually leased butcher shop, weekly fair and 38 shops had not been recovered in the year under review.	It has been mentioned that collecting had been delayed due to covid situation.	

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 sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
----- CCTV cameras had been installed in 04 sub offices of the council and compost yard at a cost of Rs. 777,972 on 02 September 2021. Provisions amounting to Rs. 629,972 of other 07 expenditure heads had been used as Rs. 148,0000 of capital expenditure head had not been sufficient. Council approval had not been obtained for above purchases, and an immediate purchase had been done on a financial committee decision on 17 November 2021.	----- It has been mentioned that council approval had been obtained and purchases had been done accordingly.	----- Purchases should be done in accordance with budget provisions.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
----- (a) Rs. 1,984,002 for a road development had been approved under Provincial Specific Development Grants in the year under review, and the council had been entered into agreement with an approved association to complete the construction at a cost of Rs. 1,871,700. Although the constructions should be completed on 30 November 2021, it had not been completed even on 04 March 2022, and time extensions had not been obtained after the agreement period. On 14 September 2021, advance amounting to Rs. 374,340 had been paid on the recommendation of the secretary of the council without having council approval and recommendation of the technical officer.	----- It has been mentioned that advances had been paid due to higher price increase in the market and future payments would be made on the recommendation of the technical officer.	----- Advances should be re-collected.

(b) The council had entered into an agreement with Haliela divisional secretariat to construct the public toilet of Haliela playground under the provisions of ministry of rural and school sports infrastructure improvement. Although the work should be completed on 31 Decemeber 2021 as per the agreement, physical work done had been about 15 percent even as at 04 March 2022, and time extensions had not been obtained after the agreement period. An advance amounting to Rs. 618,249 had been paid without having the recommendation of the technical officer and Rs. 373,486 had been paid for the bills on the recommendation of the secretary of the council without having council approval.

It has been mentioned that a part of the project had been completed and approval would be obtained after amending the estimates in the year 2022.

Advances should be re-collected.