

Padawiya Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Padawiya Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets / equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 Subsection 172 (1) of the Pradeshiya Sabhas Act No. 15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Padawiya Pradeshiya Sabha as at 31 December 2021, 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 Governments.

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 Sri Lanka Public Sector Accounting Standard for Local Governments, 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

1.4 Scope of Audit Auditor's Responsibility for the Audit of the 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 exercise 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 the Pradeshiya Sabha's 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 Pradeshiya Sabha;
- Whether the Pradeshiya Sabha 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 includes specific provisions for following requirements.

- 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.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) The value of 96 Piyestra armed cushioned chairs purchased last year for Rs.548,986 had been re-accounted also in the year under review. Therefore, the fixed assets had been increased by Rs.548,986.	Accepted.	The accurate fixed asset value should be accounted.
(b) As depreciation had been carried out for additions amounting to Rs.3,034,414 of the year under review related to 03 assets, depreciation of the year under review and provision for depreciation had been overstated by Rs.317,165 in the statement of comprehensive income and in the statement of assets and liabilities.	Accepted.	The accurate value should be accounted.
(c) Even though the value of 03 roads had been Rs.4,295,181 as at 31 December of the year under review according to the certified bills, fixed assets and capital grants had been understated by Rs.456,533 in the statement of assets and liabilities as it had been accounted as Rs.3,838,648.	Accepted.	The accurate value should be accounted.

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| (d) | Although the transfers made by the Government for non-recurrent expenditure in the year under review had been Rs.313,893, it had been recognized as Rs.562,822 with an overstatement of Rs.251,929 in the statement of comprehensive income of the year under review. | Action should be taken to rectify in the future. | The accurate value should be accounted. |
| (e) | Due to non-rectification of erroneous capitalization of assets of the previous year and indicating the opening balance of capital grants account, where surplus (deficiency) had not been recognized, in the accumulated fund, the balance of the accumulated fund as at 31 December of the year under review had been overstated by Rs.1,515,378 in the statement of changes in net assets / equity. | Action should be taken to rectify in the future. | The accurate value should be accounted. |
| (f) | Revenue amounting to Rs.9,023,017 recognized as difference in the statement of revenue under the adjustments in the cash flow statement of the year under review had been erroneously adjusted. | Action should be taken to rectify in the future. | The accurate value should be accounted. |

1.6.2 Unreconciled Control Accounts or Reports

Audit observation

Although net assets had been Rs.367,860,684 as per the statement of assets and liabilities as at 31 December 2021, it had been Rs.362,238,089 according to the statement of changes in net assets / equity and as a result, a difference of Rs.5,622,595 was observed.

Comments of the Pradeshiya Sabha

Action should be taken to rectify in the future.

Recommendation

The accurate value should be accounted.

1.6.3 Adequate Evidence Not made Available for Audit

Audit observation

The transfer requests, land survey reports and deed of transfer related to 143.75 acres of land valued at Rs.228,690,000 had not been submitted.

Comments of the Pradeshiya Sabha

The Head of the Department has requested the Divisional Secretary several occasions to survey the lands in the area and carry out the related work, those activities have not yet been carried out by the Divisional Secretariat.

Recommendation

Arrangements should be made to obtain deed of transfer.

1.7 Non-compliance

1.7.1 Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are mentioned below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Pradeshiya Sabha	Recommendation
Section 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016	Fuel consumption tests of 07 vehicles owned by the Pradeshiya Sabha had not been done.	It was not possible to conduct the fuel consumption tests for 07 vehicles in the year 2021 due to the insufficient funds of the Pradeshiya Sabha. I hope to conduct the fuel consumption tests this year.	Action should be taken in compliance with the Circular.

2. Financial review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure over revenue of the Pradeshiya Sabha for the year ended 31 December 2021 had been Rs. 1,596,089 and correspondingly, the recurrent expenditure over revenue of the previous year had been Rs.777,540.

3. Operational review

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people and all amenities within such area, are mentioned below.

3.1 Management Inefficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) Action had not been taken in terms of FR 104 to identify the parties responsible for the loss of Rs.800,000 occurred due to burning of the baling machine installed in the restoration unit on 16 August 2019.	An officer has been appointed for investigation activities.	In terms of FR 104, the responsible parties should be identified and necessary action should be taken.

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| (b) | Action had not been taken to examine and settle a balance of Rs. 3,757,053, not recovered for a period of 02 and 06 years and included in the industrial debtor balance in the year 2021. | I will take the necessary action in the future to eliminate the balance from accounts after getting a confirmation whether it has been charged to income. | Actions should be taken to recover. |
| (c) | Action had not been taken to settle a balance of Rs. 3,776,712 to be recovered for a period of 02 and 06 years and included in the industrial creditor balance in the year 2021. | I will take the necessary action in the future to eliminate the balance from accounts after getting a confirmation whether it has been settled. | The creditor balance should be identified and appropriate action should be taken. |

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3.2 Idle or underutilized property, plant and equipment

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
Eight (08) assets amounting to Rs.3,991,950 and owned by the Council had remained idle for a period of 03 to 06 years.	I will make necessary arrangements to auction after receiving the recommendations of the engineer.	Action should be taken to utilize or to formally auction.

3.3 Asset Management

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
Action had not been taken even during the year under review to transfer the ownership of 08 vehicles costed at Rs.22,150,000, which had been used by the Council and had not been owned by the Council.	Although the parties required for transferring the ownership of the vehicles have been informed in writing, they have not yet made necessary arrangements to transfer the vehicles.	Necessary arrangements should be made to transfer.

3.4 Delays in projects, functions or capital works

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) Sixteen (16) paving stone projects, of which the contract value had been Rs. 28,860,909 and estimated to be commenced and completed in the year under review, had been abandoned.	It was not possible to implement these projects as contractors have not taken over these projects.	Attention should be paid to complete the contracted projects.
(b) Although Rs.438,853 had been spent on 02 projects with an estimated cost of Rs.1,967,544 and scheduled to be finalized by 31 December of the year under review, the work had not been completed.	The work had not been completed by 31 December 2021, but the work has already been completed.	Actions should be taken to complete the work as per the agreement.