

## **Palagala Pradeshiya Sabha - 2021**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Palagala 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, cash flow statement, and other explanatory information, 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 Sub-section 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Palagala Pradeshiya Sabha as at 31 December 2021, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **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 Standards for Local Government Authorities, 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 Scope of Audit (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 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) The following recommendations made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

**1.6 Audit observations regarding the preparation of financial statements**

**1.6.1 Non-compliance with Sri Lankan Public Sector Accounting Standards for Local Authorities**

<b>Non-compliance with reference to relevant standard</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
In accordance with Sri Lanka Public Sector Accounting Standard No. 3.7 for Local Government institution, budgeted information should be presented with the financial statements for that period in the budget documents, however the financial statements of the Pradeshiya Sabha were presented without budgeted information.	Presented according to the Public Sector Accounting Standard of Sri Lanka and according to chapter ix, the financial statements, budget documents have been presented without information.	Action should be taken in accordance to the Sri Lanka's Public Sector Accounting Standard for Local Authorities No. 3.7.

**1.6.2 Accounting deficiencies**

<b>Recommendation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Cement Blocks and concrete rings valued at Rs. 2,134,470 were given to low income earners in the council area, however that value was not shown in the concrete products sale profit and loss account.	Agreed.	The related expenses should be submitted through the concrete product sales and profit and loss account.
(b) Although the depreciable value of property, plant and equipment for the year under review was Rs.19,121,205, due to the fact that Factor was not used in the calculation of depreciation under DDB, it was shown as Rs.24,895,741 in the comprehensive income statement, which was overstated by Rs.5,774,536.		Depreciation should be properly calculated and accounted.
(c) The fixed deposit interest income due as at 31 December 2021 should be Rs.156,914 however in the statement of assets and liabilities it was shown as Rs.913,190 which is Rs.756,276 more.		Interest income receivable should be properly accounted.

### 1.6.3 Unreconciled control account or report

<b>Recommendation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
There was a difference of Rs.1,349,776 between the value and the values mentioned in the schedules as per the financial statements of 04 accounting items and a difference of Rs.180,021 between the purchase of fixed assets and ledger accounts in the cash flow statement as at 31 December 2021.	Agreed.	The reasons for the change should be found and corrected.

### 1.6.4 Lack of documentary evidence for audit

<b>Recommendation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Information regarding 03 accounting items which totalled Rs. 6,091,377 had not been presented.	Agreed.	Stock records and stock verification records should be maintained.

### 1.7 Non-compliances

#### **Non-compliance with the Laws, Rules, Regulations and Management decisions**

Instances of non-compliance with the Laws, Rules, Regulations and Management decisions are given below.

	<b>Reference to laws rules and regulations</b>	<b>Non-compliance</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	Section 177 of the Pradeshiya Sabha Act No.15 of 1987	A scheme was not established for the gratuity payments for ending their service for the temporary and casual employees working in the council.	Will be contributed to Government Service Employees' Provident Fund.	Action should be taken in accordance with the Pradeshiya Sabha Act No.15 of 1987.

(b)	Local Government Reform Circular No. PL/07/01/53 dated 14 November 2006	The action had not been taken to conduct cemetery records and published and Maintained the cemeteries by building walls and fenced.	The action will be taken to build security fences in the future.	. The action should be taken in accordance with the Local Government Reform Circular No. 09 No. PL/07/01/53 dated 14 November 2006.
	(i) No 09			
	(ii) No 06 2.2 (iii)	Council owned roads were not gazetted and maximum carrying loads were not displayed.	Agreed.	The action should be taken in accordance with the Paragraph 2.2 (iii) of Local Government Reform Circular No. 06.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2021 amounted to Rs10,159,871. as compared with excess of recurrent expenditure over revenue amounted to Rs. .12,486,226 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Performance of Revenue Collection

<b>Recommendation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) <b>Rent</b> The shop rents of Rs. 245,509 and Rs. 1,420,800 from butchery tender revenues had not been recovered as at 31 December of the year under review.	Proceeds are being taken to recover shop rents and cases have been filed to collect tender money.	Action should be taken to collect all arrears.
(b) <b>Other Income</b> In relation to the year under review, Rs.1,592,100 for machine rental and Rs.248,200 for machine rental in the year 2020 had not been recovered.	Action is being taken to collect the remaining due amount.	Action should be taken to collect arrears.

### 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

	<b>Recommendation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	A council cab had met with an accident for which Rs. 112,477 had been spent from the council fund, however the party responsible for the accident had not been identified to recover the damages.	Action is being taken to avoid such problems again.	The responsible party should be identified and steps should be taken to recover the loss.
(b)	Under a program implemented in the year 2020, goods valued at Rs.5,165,864 were distributed to the people at subsidized prices, however no action was taken to recover Rs.974,127 that should have been collected through the distribution of those goods.	Action is being taken to collect the arrears	Action should be taken to collect all arrears.

#### 3.2 Operational Inefficiencies

	<b>Recommendation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	In the year under review, on 09 occasions, due to the motor grader working longer than the rental period, the rental fees of Rs.368,000 had not been collected.	Action is being taken to collect the due amount	Actions should be taken to recover all monies due.
(b)	In the year under review, on 05 occasions, the council did not receive rental income of Rs.270,000 due from providing vehicles to the rental base without an application and any written approval.	Action is being taken to collect the due amount	Actions should be taken to recover all monies due.
(c)	During the year under review, rental income of Rs.587,800 due for 416.2 hours of machines run on hire basis was not recovered.	Action is being taken to collect the due amount.	Actions should be taken to recover all due monies.

### 3.3 Assets management

	<b>Recommendation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	Even in the year 2021, no arrangements were made to take over the ownership of 03 vehicles with an estimated value of Rs.4,500,000 used by the council.	Action is being taken to take over the assets.	Arrangements should be made to take over the assets.
(b)	In the year 2021, the necessary activities to use or idle the unnumbered cab and rice flour processing machine, which has been kept in the council premises for more than 05 years, were not done.	Action is being taken to dispose.	Actions should be taken to reuse or dispose.

## 4. Accountability and Good Governance

### 4.1 Environmental problems

	<b>Recommendation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
	As the council does not collect garbage, the garbage generated in the area was being dumped into the environment informally.	Garbage collection has been stopped and the concerned persons have been advised to recycle the garbage.	A formal waste management process should be implemented.