

Rambewa Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rambewa 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 Rambewa 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

Non-compliance with reference to relevant standard	Comment of the Council	Recommendation
In accordance with Sri Lanka Public Sector Accounting Standard No. 3.7 for Local Government institution, budgeted information should be presented in the financial statements for that period in the budget documents, however the financial statements of the Pradeshiya Sabha were presented without budgeted information.	Agreed	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

Audit Observation	Comment of the Council	Recommendation
(a) Projects amounting to Rs.1,730,000 in the creditor balance of the financial statement were recognized as creditor balance even though they had not been started.	Will be shown as Creditor balances in the preceding years.	The value of projects which have not been initiated should not be recognized as creditor balance.
(b) According to the cash flow statement, there is a value of Rs.27,136,744 under the decrease/increase of creditors and the decrease and increase of other current liabilities, however such value could not be identified when comparing the statement of assets and liabilities related to the year under review and the preceding year.	Agreed.	The correct cash amounts should be identified, and the cash flow statement should be prepared accordingly.
(c) Although according to the ledger accounts, assets with a value of Rs.1,065,559 were purchased, however those assets were not listed as purchases of property, plant and equipment under cash flow from investment activities.		

1.6.3 Unreconciled control account or report

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.583,134 regarding 15 accounting items between the values mentioned in the statement of assets and liabilities and the values mentioned in the schedules.	Action will be taken to rectify the balance.	Action should be taken to rectify the balances after investigating the reasons for the difference.

1.6.4 Lack of documentary evidence for audit

Audit Observation	Comment of the Council	Recommendation
Information regarding 03 accounting items which totalled Rs.2,782,068 were not presented.	Action will be taken to cut off the balances after investigating information and obtaining the permission of the council.	Schedules should be updated, and balance confirmation letters should be submitted.

1.7 Non-compliances

1.7.1 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.

Reference to laws rules and regulations	Non-compliance	Comment of the Council	Recommendation
(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 Provident Fund and Employees' Provident Fund.	Action should be taken in accordance with the relevant Act.
(b) Paragraph 3.1 of the Public Administration Circular No.30/2016 of the Secretary of the Ministry of Public Administration dated 29 Decemeber 2016	07 use vehicles owned by the council had not been done fuel consumption tests as according to the Circular.	Only the currently running vehicles are fuel tested. Heavy vehicles are not driven enough to check for fuel consumption	Action should be taken in accordance with the Public Administration Circular

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 Rs.25,728,099 as compared with excess of recurrent expenditure over revenue amounted to Rs.14,817,273 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance of Revenue Collection

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Tax		
Action had not been taken to collect the arrears of assessment of Rs.1,169,384 as at 31 December of the year under review.	Action will be taken as soon as the approval is received the valuation department will be informed and the property will be assessed.	Action should be taken according to the Section 158 of the Pradeshiya Sabha Act No. 15 of 1987.
(b) Rent		
(i) In 2020 and 2021, a receivable amount of Rs.262,270 for rental of assets was not collected.	Action is being taken to collect the remaining due amount.	Action should be taken to collect all arrears due from the rental of assets.
(ii) For 04 annually leased assets located in the area of authority, an amount of Rs.664,484 due for the year 2021 and an amount of Rs.1,151,033 due for previous years were not recovered.	Legal Action is being taken to collect the due amount.	Action should be taken to recover all arrears due for lease of assets.
(c) License Fees		
Action had not been taken by the council to collect the arrears of license fees amounting to Rs.188,000 as at 31 December of the year under review.	Legal Action is being taken to collect the due amount.	Action should be taken to recover the arrears promptly.

3. Operational Review

The following are the facts observed regarding the performance of the council's duties of regularizing and controlling the matters of public health, public utility services and public roads and the welfare, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Although it was given in the letter dated 22nd May 2020, the Commissioner of Local Government was reported by the Chief Secretary of the North Central Provincial Council ordered to collect Rs.1,107,300 from the driver and 50 percent of that amount immediately and the rest amounting to Rs.92,276 in 06 instalments according to the investigation conducted regarding the accident of a council-owned cab on 16 May 2019, however by 20 December 2021, only Rs. 350,000 had been recovered from that amount. This vehicle has been decaying in a private garage for about 2 ½ years without any repairs.	Agreed.	Necessary action should be taken to get the vehicle repaired and put back into use
(b) Although it was reported that the renovation project of the old library building belonging to the local council had not been completed as scheduled, the council had released an amount of balance in hand amounting to Rs.324,149 on 12 October 2020 without any investigation.	Agreed.	The responsible parties should be identified, and necessary action should be taken.
(c) Rs.1,730,000 was received from the central government for 03 projects in the year 2017, however the projects were not implemented even in the year under review.	Agreed.	Action should be taken to implement the related projects promptly.
(d) Action had not been taken to settle the balances of 10 old balances amounting to Rs.1,670,740 of which information cannot be found in the Statement of Assets and Liabilities, as at 31 December of the year under review.	Agreed.	Action should be taken to settle said balances promptly.

3.2 Assets management

Audit Observation

Action had not been taken to take over the ownership of 05 vehicles that were given to the council in the year 2017 by the Ministry of Provincial Councils and Local Government even as of the year 2021.

Comment of the Council

Action will be taken to take over the vehicles.

Recommendation

Action should be taken to take over by the council.