

Samanthurai Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Samanthurai 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, 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 the provisions of the National Audit Act No. 19 of 2018 and the 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 accompanying financial statements give a true and fair view of the financial position of the Samanthurai 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

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 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The total value of 07 constructions worth Rs. 7,142,127 completed in the year under review and the year 2019 had not been capitalized.	Actions will be taken to rectify in the financial statements of the next financial year.	Financial statements should be prepared accurately.
(b) The value of Rs. 140,902 spent for building the boundary wall of a community organization which was built by the social responsibility foundation in the year 2013, had not been capitalized.	- Do -	- Do -
(c) Stamp duty revenue amounting to Rs.4,820,400 had not been brought forward as debtors in the year under review.	- Do -	- Do -

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. 23,642,420 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 8,394,875 in the preceding year.

2.2 Revenue Administration

2.2.1 Revenue Collection Performance

Audit Observation	Comment of the Council	Recommendation
(a) Assessment and Taxes		
During the year under review, the billed income was Rs.6,338,748 and the income collected during the year was Rs.1,495,650. At the end of the year, the outstanding balance was Rs. 22,883,530 and as a result, the collection of assessment and taxation had been at a weak level.	Actions have been taken to collect taxes.	Actions should be taken to collect the revenue promptly.
(b) Rentals		
80 per cent of the arrears of Rs. 2,291,338 or Rs. 1,845,204 should have been collected from 95 tenants for a period ranging from 5 to 10 years as at 31 December 2021. Also, the outstanding value that should have been charged for more than 10 years was Rs.135,016.	Legal action has been taken to collect the rental arrears.	Actions should be taken to collect the rental arrears.
(c) Tax on rent		
The arrears of tax on rent due from lease holders amounted to Rs.7,920,448 as at 31 December of the year under review. Out of that, Rs.5,150,088 belonging to the period between 1 and 5 years should have been collected from 23 lease holders and Rs.2,650,300, which belonging to more than 5 years, should have been collected from 16 lease holders.	Legal actions are being taken against the lease holders and arrears are being collected through the courts.	Actions should be taken to recover tax on rent.
(d) Stamp Duty		
The outstanding stamp duty due from the Chief Secretary of the Provincial Council and other	Actions have been made to collect the stamp duty due.	Actions should be taken to collect the revenue promptly

officials was Rs.4,820,400 on 31 December 2021.

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.

Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Actions had not been taken as per Section 154 of the Local Council Act to collect one per cent fee from the sale value of Rs.153,885,000 of 578 immovable properties located in the council area. Due to this, the council had lost an income of Rs. 1,538,850.	Actions will be taken regarding the above matter in the near future.	Actions should be taken to charge a fee of one percent of the sale value of the property in terms of Section 154 of the Local Council Act.
(b) According to Urban Development Authority Circular No. 15 dated 10 November 1993, when retrieving the balance in the bank account of the Urban Development Authority maintained by the council, projects with feasibility reports should be presented and withdrawn with the prior approval of the head of the Urban Development Authority or the Director General, contrary to this, Rs.334,680 had been credited to the account of the council in the year under review.	The advice of the Urban Development Supervisor has been sought on the relevant matter.	To retrieve the balance in the bank account, projects with feasibility reports should be presented and withdrawn with the prior approval of the head of the Urban Development Officer or the Director General.
(c) The value of 50 lands owned and used by the council and 37 vehicles had not been assessed and accounted and actions had not been taken to assess them by the end of the year under review.	Valuation is in progress.	Valuation and accounting should be expedited.