Seethawaka Pradeshiya Sabha - 2021

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# 1. Financial Statements

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# 1.1 Qualified Opinion

The audit of the financial statements of the Seethawaka Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of Assets and Liabilities as at 31 December 2021, Comprehensive Income Statement, Statement of changes in equity Cash Flow Statement for the year and 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the National Audit Act No 19 Of 2018. 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 Seethawaka Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Authorities

### **1.2 Basis for Qualified Opinion**

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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

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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** Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

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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 skepticism 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

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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)

(c) The financial statements presented includes all the recommendations made by me in the previous year, except the audit matters 1.2.2 (a), 1.2.2 (g), described in paragraph 1.2 of previous year report as per the requirement 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

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1.6.1	Accounting Deficiencies
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	Audit observations	Comment of the Council	Recommendation
(a)	The property, plant, and equipment balance as on 31 December 2021 was overstated by Rs.14,519,686 due to double entry of property, plant and equipment purchased amounting to Rs.14,519,686 during the year under review.	Notified that the relevant corrections will be made in the year 2022 account.	Should be correctly accounted.
(b)	The values of 02 crematoriums Suduwella and Galagedara owned by the council had not been assessed and accounted.	Notified that the values will be correctly assessed and included in the accounts of the year 2022.	The relevant fixed assets should be accounted properly.
(c)	Rs.7,350,366 paid for the Suduwella crematorium under construction had been credited to the building account instead of being account as work in progress during the year under review.	Notified that the relevant correction will be made from the year 2022 account.	Assets should be accounted properly.
(d)	Instead of accounting the billed assessment tax income amounting to Rs.21,913,790, was accounted as Rs.20,604,900 in the financial statement for the year under review and as such Charge from non-exchange transactions was understated by an amount of Rs.1,308,890. Also, Assets and Liabilities statement was accounted with an amount of Rs.15,884,880 instead of accounting it in arrears of Assessment amounting to	Inform that the action will be taken to rectify the errors that have occurred in the accounts.	Assessment tax and arrears of assessment tax should be accounted properly.

Rs.17,193,770 and as such the receivable Assessment was understated by an amount of Rs.1,308,890 as at the end of the year under review.

(e) Although the assessment income received Inform that the adjustment of Assessed income early was Rs.1,886,553, due to account it assessed income received should be accounted as Rs.1,706,019 in the financial statement, early at the end of the year properly. the assessment income received early was under review will be done in understated by an amount of Rs.180,534 at the year 2022. the end of the year under review.

Notified that the billed rent

- (f) Due to account billed rent income of Rs.6,457,984 instead of Rs.6,926,376 in the year under review, Charge from exchange transactions was overstated by an amount of Rs.468,392. Also, instead of account Rs.909,507, the arrears of rent income were accounted as Rs.440,893, the receivable rent was also understated by an amount of Rs.468,614, at the end of the year under review.
- (g) Although the allocation for general supply creditors was Rs.113,182,553, it was accounted as Rs.123,599,243 to the general supply creditor account, and as such the current liabilities were overstated by an amount of Rs.10,416,690 in the year under review.
- (h) The balance of the employee guarantee account and the balance of the employee guarantee scheme account which was Rs.374,840 was not accounted as a current asset and a current liability.
- (i) The balance in the cash and bank accounts of the council amounted to Rs.48,786,510 31 December 2021, however as at according to the cash flow statement, it was recorded as an overdraft balance amounting Rs.115,734,394. Accordingly, to а difference of Rs.164,520,904 was observed between the cash balance shown in the statement of financial position and cash flow statement as at 31 December 2021.

income in the year under should be accounted review will be rectified. properly.

Shop

rent

income

Notified that the relevant The correct value account will be rectified by should be accounted. the final account of 2022.

Notified that the accounting Should be accounted will be rectified. Correctly

Notified that the corrected The cash flow cash flow statement is statement should be enclosed herewith. accounted correctly.

(j)	Although as per the comprehensive income statement as at 31 December 2021 the accumulated surplus was Rs.352,853,717, as per the change in equity statement it was Rs.500,631,911, a difference of Rs.147,778,193 was observed.	Notified that the difference of Rs.147,778,193 between the balances will be corrected in the year 2022.	should be accounted
(k)	Due to account of fittings balance as Rs.183,933 instead of Rs.383,148, the balance of property, plant and equipment account was understated by an amount of Rs.199,215.	be taken to rectify the difference between the two	be accounted in the
(1)	Although the amortization for assets received from capital grant receipts in the year 2020 amounted to Rs.9,483,378, it was calculated as Rs.50,303,341 and therefore the debit of the year had been overstated by an amount of Rs.40,819,963.	•	Amortization should be accounted correctly.
(m)	Although, a balance valued at Rs. 5,672,904 was credited to the capital asset account under program No. 4-1312-2 in the year under review, there was no evidence that a debit note was used for that value.	•	Correct debit and credit notes should be disclosed in the accounts.

#### 1.6.2 **Unreconciled Control Accounts**

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# Audit observations

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- (a) The opening balance of 02 accounting items amounted to Rs.702,098,041 according to the journal entry as at 01 January 2021, however due to the ledger account being Rs.689,903,641, a difference of Rs.12,194,400 was observed.
- (b) According to the financial statements of 03 accounting items as at the end of the year under review, the balance amounted to Rs. 279,460,980, however, according to the schedules, the balance was Rs. 251,349,009.

# **Comment of the Council**

Recommendation

\_\_\_\_\_ Notified that the correct values have been adjusted correctly in the account.

Should be accounted correctly.

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Notified that the relevant Should be accounted adjustment will be rectified correctly. financial

submitted.

and

the

final

statements of 2022 will be

# 1.7 Non-compliances

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

and regu		Non-compliance	Comment of the Council	Recommendation
(a) Th Act N	e Pradeshiya Sabha No. 15 of 1987			
(i) The Se and 1	ection 3,Section 127 28 of the Cemetery raveyard Ordinance	Steps have not been taken by the council to take over the cemeteries located within the council area, 26 cemeteries belonging to Seetawaka Regional Secretariat and 27 cemeteries of Padukka Regional Secretariat.	Notified that necessary arrangements have been made to take over the cemeteries belonging to the division.	Action should be taken according to the relevant Acts.
(ii) Secti	on 153	Although 13 undeveloped plots of land within the area authority of the Pradeshiya sabha should be taxed Rs.9,114,600, however the tax was not imposed.	Notified that there are 13 undeveloped lands.	Action should be taken according to the Pradeshiya Sabha Act.
(b)	FR 571 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	There was a balance of Rs.12,428,604 of more than 03 years old in Miscellaneous deposit balances and action had not been taken to settle or take this balance into income as at 31 December 2021.	Notified that the necessary action had been initiated to collect the value which can be taken as income for more than 03 years and in the future, it will be taken into income.	The balance to be taken as income should be correctly identified and settled.

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2. Financial Review

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# 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.147,778,193 as compared with excess of revenue over recurrent expenditure amounted to Rs.30,356,058 in the preceding year.

#### 2.2 **Performance in collecting Revenue**

The observations relavent to the performance of the collection of revenue of the council is given below.

Audit observations	Comment of the Council	Recommendation
collected income of Rs.363.9 million, the income collected in the year under review had	Due to the spread of the Corona virus, it is notified that the collection of income has decreased as the activities of collecting funds from house to house was not carried out and the activities of property prohibition were also not carried out.	taken to maximize the income of the
Arrears of Income		
dit observations	Comment of the Council	Recommendation
Acreage Tax		
As at the end of the year under review	The arrears of acreage tax amount till	Action should be

#### 2.3

Audit observations	Comment of the Council	Recommendation
(a) Acreage Tax		

As at the end of the year under review, the arrears of acreage tax balance were Rs.82,135 out of which Rs.39,946 was more than 10 years old and action has not been taken to recover the arrears.

### (b) Court Fins and Stamp Duty

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The court fines to be received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2021, were Rs.65,000,000 and stamp duty was Rs.238,818,875. In the year 2021, the estimated court fine was Rs.30,000,000 and stamp duty was Rs.135,000,000.

The arrears of acreage tax amount till 31.12.2021 in Padukka sub-office is Rs.67,066.45. In order to collect the arrears amounting to Rs. 39,945.95 due from more than 10 years, the relevant owner has been informed by letters on 26.01.2022. Noted that action is being taken to collect the arrears.

Action should be taken to recover the arrears of income

Noted that it has been referred to the Provincial Revenue Department to get funds for the first 06 months of 2019. Kindly noted that the sub-documents prepared for the remaining 06 months of 2019 have been forwarded to Avissawella Magistrate Court for inspection. Court fine sub-documents for the year 2020 are currently being prepared. Notified that action is being taken to prepare the relevant subdocuments for the 2021.

Action should be taken to collect stamp duty and court fines.

# (c) Due Decentralized Provincial Council Donation

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As at the end of the year under review, provincial councils and decentralized donation amounting to Rs.63,445,911 had not been collected. Provincial councils and decentralized Action should be donation due on 31 December 2021, taken to collect valued at Rs.24,004,050 have been decentralized recovered as Rs.63,445,911 as at provincial council 2022.08.15. donation.

#### **3** Operational Review

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Audit observations

# 3.1 Human Resources Management

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emp	loyees v	was 220	) and t	here	were	(
34	vacanc	ies in	prin	nary	and	S
seco	ndary	grade	s as	at	31	i
Dece	ember 2	021.				r

# Comment of the Council

# Librarian and Management Service Officer vacancies are filled by Public Service Commission. Notified that there is a case pending in the Supreme Court regarding the Revenue Inspectors, as such it cannot be filled with until a decision is made. Notified that a public advertisement has been prepared for recruitment to the posts of Health Administrator and Preschool (Limited) and the vacancies will be filled after approval.

# Recommendation

Action should be taken to fill essential vacancies.

#### 3.2 Staff Loan

# Audit observations

The balance of employee loan due from 12 officers and employees deceased, retired, left service and are still in service amounted to Rs.864,226.

#### **Comment of the Council**

The employee loan balance due from 15 officers and employees who have transferred, deceased, retired, and left service is Rs.2,336,373.

#### Recommendation

Action should be taken to recover the due employee loans.

- 4. Accountability and Good Governance
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- 4.1 Submission of Financial Statements

# Audit observations

Although according to the Circular LGD/02/2021 dated 10 November 2021 of the Western Local Government Commissioner, all accounts should be settled and financial statements for the fiscal year 2021 on 31 December 2021 should be prepared and copies of the related financial statements should be submitted to the Auditors General with the copy to the Local Government Commissioner and Assistant Commissioner of Local Government before 28 February 2022, the revised financial statement reports for the year 2021 of Seethawaka Pradeshiya Sabha were submitted on 03 June 2022.

# 4.2 Annual Action Plan

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# Audit observations

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Although according to the action plan, provisions amounting to Rs.15,123,000 had been allocated in the annual budget to fulfill 8 tasks, yet those tasks had not been completed.

# 4.3 Annual Board of Survey

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## Audit observations

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(a) According to the stock survey report, relevant action had not been taken regarding 3,144 units of goods recommended for auction and 32 units of goods recommended for disposed even by the audit date of 4 March 2022.

### **Comment of the Council**

No answers were provided

# Recommendation

Financial statements should be submitted on due date as per circular instructions.

### **Comment of the Council**

Noted that due to the spread of the Covid epidemic, these projects could not be implemented.

### Recommendation

Plans should be implemented according to the action plan.

### **Comment of the Council**

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According to the decision of the Stock verification Board (E)-01 held on 10.03.2022, an auction board has been appointed to auction 3,144 items to be auctioned according to the stock verification report for the year ending 31 December 2021.

The correct list of items to be discarded is 16 items and accordingly a discarding board has been appointed. It was announced by the members of the Board of Discard that the discarding activities will be completed in the month of June 2022.

# Recommendation

Discarding should be done promptly