

Verugal Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Verugal Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information 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 provisions of Sub Section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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 Verugal 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 Principles.

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 Principles 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 Sub 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)

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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of the Pradeshiya Sabha is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included 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

1.6.1 Accounting Deficiencies

The following accounting deficiencies were observed.

Audit Observations	Comments of the Sabha	Recommendations
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(a) An interest on 03 fixed deposits for the year under review totalling Rs. 312,518 had not been accounted as income for the year.	The relevant errors will be corrected in the next financial year.	The relevant interest income should be included in the financial statements.
(b) Tyres and batteries valued at Rs. 199,350 purchased during the year under review for vehicles had been accounted as fixed assets.	It will be corrected in the next financial year.	It should be removed from fixed assets.
(c) A sum of Rs. 668,614 had been spent on the renovation of the call center. However, It had been under-accounted as Rs. 613,698 in the fixed assets account, thus the value of the fixed assets had been understated by Rs. 54,916 in the financial statements.	It will be added and corrected in fixed assets in the following year.	It should be included in fixed assets.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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

Reference to Non-compliance with Laws, Rules, Regulations and Management Decisions etc.	Non-compliance	Comment of the Sabha	Recommendation
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(a) Pradeshiya Sabhas Act No. 15 of 1987			
Section 126	No steps had been taken to collect fees for advertisement boards installed in the Pradeshiya Sabha area.	Steps will be taken to collect fees for advertisement boards.	Fees should be collected in accordance with the Act.
(b) Section 193 of Chapter X of the Pradeshiya Sabhas (Financial and Administration) Rule of 1988	A statement containing explanations for variances comparing income and expenditure information with the budget plan had not been prepared.	A statement for variances will be prepared and attached by comparing the income and expenditure of the financial statements of the next year with the annual budget.	The statement should be prepared as per Financial and Administrative Rule.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka No. 571	Appropriate action had not been taken in respect of tender, miscellaneous, retention money and other deposits amounting to Rs.224,352 which exceeds two years as per the financial regulations.	It will be settled in the preparation of the financial statements of the next financial year.	Appropriate action should be taken as per financial regulations.
(d) Circular No. 30/2016 of Ministry of Public Administration and Management of 29 December 2016	Fuel consumption had not been tested for 07 vehicles in use of the Pradeshiya Sabha.	No answer provided.	Fuel consumption should be tested as per the circular.
(e) Local Government Circular No. 2018/e-01 of 19 July 2018	The citizens were not provided with the facilities to receive services through the internet.	No answer provided.	Internet facilities should be provided as per circular.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.1,060,101 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 4,222,602.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

	Audit Observations	Comments of the Sabha	Recommendations
(a)	Rates and Taxes According to Section 158(1) of the Pradeshiya Sabhas Act No. 15 of 1987, rates and taxes have not been levied on the properties located in the Pradeshiya Sabha area.	Action will be taken in this regard in the future.	Appropriate action should be taken regarding collection of assessment tax as per Pradeshiya Sabhas Act.
(b)	Rent The Pradeshiya Sabha had not taken steps to recover a sum of Rs. 666,570 in respect of rent arrears of stall, distribution charges of drinking water and hiring arrears of machine for a period of 03 to 10 years without identifying the relevant persons.	Immediate action will be taken in this regard.	Appropriate action should be taken regarding the respective arrears.

3. Operational Review

The matters observed in respect of execution of activities that should be executed by the Sabha under Section 3 of the Pradeshiya Sabhas Act such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

3.1 Management Inefficiencies

	Audit Observations	Comments of the Sabha	Recommendations
(a)	09 fixed deposits totalling Rs. 7,561,413 had been deposited for a period of 4 to 12 years without being utilized for the objectives of the Sabha.	Steps will be taken to invest the relevant deposits in income generating sources.	Fixed deposits should be made by stating the objectives.

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| (b) | Total rental income of 13 stalls belonging to the Sabha for the year should have been shown as Rs.766,400, However, a sum of Rs. 511,820 had only been included in the financial statements. | A rent concession had been given for 03 months and one stall was closed due to slow trade. Due to this, the rental income had been decreased by Rs. 254,380. | Total rental income for the year should be shown in the financial statements. |
| (c) | Four sundry creditor balances totalling to Rs. 672,690 remained unsettled and shown in the financial statements for the last 08 years. | Appropriate action will be taken when the documents related to this are received in the following year. | Appropriate action should be taken on creditor balances. |
| (d) | A waste management plan had not been prepared as per the national policy and the Multi copper machine purchased from the Governor's Fund for Rs.485,000 for processing organic fertilizers was not used for effectively in the year under review. | The plan to process solid waste as organic fertilizer is currently being implemented. It will be delivered once packing process is completed. | A proper management plan related to solid waste should be developed and implemented. |
| (e) | An expenditure of Rs.1,622,391 had been incurred on the long and short term projects implemented by the Sabha regarding solid waste management in the year under review. However, nothing had been earned by the Sabha as revenue. | The progress of the relevant project will be reviewed and efforts will be taken to achieve its objectives. | Actions should be taken to generate revenue from solid waste management. |

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
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By-laws should be enacted to fulfill 30 main matters under Section 126 of the Pradeshiya Sabhas Act No. 15 of 1987. However, by-laws were enacted for only 05 matters even as at 31 December 2021.	Steps will be taken to enact other by-laws.	Steps should be taken to enact by-laws.

3.3 Deficiency in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
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Twelve roads were graveled and renovated by spending a sum of Rs. 6,437,869. However, the quality of the roads could not be confirmed due to the failure to carry out an inspection to	In the future, reports of CBR status confirmation will be obtained and steps will be taken to construct roads.	Measures should be taken to confirm the quality of the particular road while constructing them.

confirm the placement of gravel in the required CBR>20 condition and pressure testing. Further, it was observed that a situation may arise in which funds may have to be reused for road renovation in the coming years.

3.4 Human Resources Management

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
Employee Vacancies and Excesses -----		
Steps had not been taken to fill 14 vacancies including 10 vacancies in the posts of primary level and 04 vacancies in the posts of secondary level officer level.	No answers provided.	Appropriate action should be taken.

4. Accountability and Good Governance

----- Internal Audit -----		
----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
The Sabha had appointed an internal auditor during the year under review. However, no audit work had been carried out.	At present, an internal auditor is appointed and internal audit functions are being carried out.	Appropriate action should be taken.