

## **Hakmana Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Hakmana Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at December 2021 Statement of Financial Operations, statement of Changing 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 Hakmana 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**

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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 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 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 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Accounting Deficiencies

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| Audit Observation   | Comment of the<br>Sabha                | Recommendation                  |
|---|--|---------------------------------|
| -----   | -----                                  | -----                           |
| (a) The credit provision had not been made for Rs.91,039 payable Local Government Service Pension Fund as at the end of the year under review.  | The action will be taken to corrected. | Should be accounted correctly.. |
| (b) The previous receives by 5 heads amounting Rs.97,401 had been settled against the income at the end of the year under review.   |  |                                 |
| (c) The capital expenditure of Rs.7,586,616 incurred during the year under review, for the development of land and buildings owned by the council was not capitalized under land and buildings. |  |                                 |
| (d) Over credit provision of Rs.3,560,139 had been made for 06 construction work due at the end of the year under review.   |  |                                 |
| (e) The Warrant fees and court fine income of Rs.258,831 had been over stated in the accounts.  |  |                                 |
| (f) Rs. 648,544 received as security deposit in weekly fare lease related to the previous and reviewed years had not been reconciled in the financial statements.                               |  |                                 |

## 1.6.2 Lack of Documentary Evidence for Audit

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### Audit Observation

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Due to non-submission of updated land building register, stock register and detailed schedules etc., 17 accounting items totaling to Rs.68,181,957 could not be satisfactorily checked during the audit.

### Comment of the Sabha

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The action will be taken to correct in future

### Recommendation

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Evidence should be submitted to confirm the account balances shown in the financial statements.

## 2. Financial Review

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### 2.1 Financial Results

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December amounted to Rs. .15,031,826 as compared with excess of revenue over recurrent expenditure amounted to Rs. 9,012,717 in the preceding year.

### 2.2 Performance of Revenue Collection

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#### (a) Assessment

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##### Audit Observation

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There were 2265 assessment units in the year under review, and there was an outstanding balance of Rs.1,405,403 due from 996 assessment units at the end of the year under review.

##### Comment of the Sabha

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The action will be taken to recover in future.

##### Recommendation

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Arrears of income should be collected promptly.

#### (b) Shop Rent

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##### Audit Observation

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Shop rooms owned by the council were leased in the year under review and there was an outstanding balance of Rs.192,450 from 42 shop rooms at the end of the year.

##### Comment of the Sabha

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Action will be taken to recover arrears of income in the future.

##### Recommendation

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Arrears of income should be collected promptly.

### 3. Operational Review

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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 Deficiencies in Contract Administration

| <b>Observation</b><br>-----   | <b>Report of the Sabha</b><br>-----   | <b>Recommendation</b><br>-----                  |
|---|---|---|
| In Province Engineering Service Office as a rate with similar work description in payment by Southern Provincial Road Development Authority for preparing formworks using plywood boards for 09 concrete drain and side wall construction work under various funds last year and the rate of Rs.841 introduced under CT - 036 was not used. Instead, the Southern Provincial Road Development Authority rate of Rs.1,108 introduced under ST-057 for framing using second class wood planks sliced to 1-inch (25 mm) thickness had been used. Because of this, at the rate of Rs.267 per square meter, formworks had paid Rs.220,955 more for 827.54 square meters. | Thin planks and 25mm second grade wood planks were used for the relevant formworks, and 3mm thin planks are used on the surface of the wood for constructions that require a smooth finish. According to the prices of 2020, if the rates for plywood were set, the amount used for wooden planks would be exceeded, and iron and thin planks are better in quality and finish than the second class wooden planks. | Appropriate and favorable rates should be used. |