

Hambanthota Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hambanthota 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 notes to the financial statements, 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 Hambanthota Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 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 to be prepared.

1.4 **Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Pradeshiya Sabha 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) Capital Expenditure of Rs.5,723,490 for the year under review had been stated as recurrent expenditure therefore the capital expenditure had been understated by that amount.	Action would be taken to correct in the final accounts of the year 2022.	The expenditure should be accurately recognized and stated.
(b) Over estimates and over payments for 6 industries completed of Rs.3,535,082 had been included in the balance of industrial debtors as at 31 December of the year under review.	Action would be taken to correct in the final accounts of the year 2022.	The debtors balance should be stated accurately.
(c) 573 units valued Rs.1,622,643 of inventory items that should be entered into the inventory had been capitalized as non-current assets as at 31 December of the year under review.	Action would be taken to correct in the final accounts of the year 2022.	Inventory items should be stated accurately.
(d) The rates of Rs.105,769 had been overstated as a receivable balance regarding Baragama Road which is not within the Sabha authority as at 31 December of the year under review.	Action would be taken to correct in the final accounts of the year 2022.	The receivable income should be accurately stated.

- (e) 645 Litres of Diesel valued Rs.78,045 as at 31 December of the year under review had not been incurred in the Closing Stock. Action would be taken to correct in the final accounts of the year 2022. The Closing Stock should be accurately calculated.

1.6.2 Unreconciled Control Accounts

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Differences aggregated of Rs.24,230,835 had been observed between 03 items of account balances incurred in the financial statements of Rs.20,881,317 and the amount stated in the supplementary registers/ reports.	Inform that the Contract Deposit difference would be accepted and the Stamp Duty and the Court fines would be written off after receiving the acceptance from the Governor.	The differences of the relevant balances should be reconciled and corrected.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.44,442,002 for the year ended on 31 December of the year under review as compared with the corresponding the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.3,698,785.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Rates and Taxes Action had not been taken to recover receivable rates and taxes regarding 913 units of Rs.890,175 and from that arrears Rs.165,490 had been from Government Institutions.	Actions would be taken to recover the arrears rates using the field days and the government institutions had been informed in written to make the payments in cash.	The Arrears income should be recovered as soon as possible.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public

thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Identified Losses

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
<p>Actions had not been taken to charge the rent from 12 Stalls owned by the Sabha on the assessment made by the Department of Valuation on 26 January 2018 and rent had been charged on a decision taken by the Sabha on 18 May 2018 from the month of July 2018, therefore the income Sabha lost as at 31 December of the year under review had been Rs.604,000.</p>	<p>The Assessment made in the year 2018 had not been accepted by the Sabha and rents had been charged under a decision taken by the Sabha and a new assessment had been carried out in the year 2022 but the report had not been received by the Sabha yet.</p>	<p>The loss occurred on the Sabha Fund should be charged as soon as possible.</p>

3.2 Idled or Underutilized Property, Plant and Equipment

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
<p>A multi-purpose Shredder Machine of Rs.671,000 and a Sieve Machine of Rs.930,600 had been purchased for the Compost Yard on 15 December 2021 but those machines had not been fixed and used as at the audit date on 12 January 2022 even though it had been lapsed 06 months warranty period.</p>	<p>The three phase electricity connection needed to make these machines active had been requested by the Electricity Board but the supply had not been granted yet therefore inform that machines are still inactive on that reason.</p>	<p>The assets should be used on the purpose it had been purchased.</p>

3.3 Deficiencies in Contract Administration

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
<p>(a.) 46 per cent out of the quantity should be done had been completed of the construction of Mayurapura Weekly Fair as at 07 December 2021 made agreement on 09 September 2021 for Rs.7,902,800 and 08 tasks of Rs.4,221,337 had not been still completed as at the date of audit on 12 January 2022.</p>	<p>Inform that the project could not be completed by the estimated date because of the time consumed to remove the electricity posts, difficulty to find labourers and scare material before commencing this project.</p>	<p>Actions should be taken according to the agreement.</p>

(b.) The road near Mr.Wimalasena's House at Julpallama had been developed by the Sabha laying gravel by Rs.465,253 had been become an idled expense because the road had been developed by laying carpet by the Project of Hundred Thousand Roads.

The Agreements had been made to commence the project in February of the year 2021 and Sabha had not been aware of the development of this road under the project of Hundred Thousand Roads.

Projects should be selected under suitable evaluation.