

Lunugamvehera Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lunugamvehera 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 Lunuhamvehera 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) Even though the accurate Credit Balance of all Credit and Debit balances accounted in the Accumulated Fund Account in the General Ledger had been Rs.11,146,514, it had been stated as Rs.11,557,727 therefore overstated by Rs.411,213.	Action would be taken to settle by the final accounts for the year 2022.	The Balance of the accumulated fund account should be corrected.
(b) Settlement of due lease rent by the security deposits from the lessees who leased the Weekly Fair for the year under review and the year 2020 Rs.362,500 and Rs.462,500 respectively aggregating Rs.825,000 had been debited to the accumulated fund account and the security deposits account, therefore the accumulated fund account had been understated by Rs.825,000.	Action would be taken to settle by the final accounts for the year 2022.	The Journal Entries should be kept accurately.
(c) Even though it had been informed by the Southern Provincial Council that an amount of Rs.100,000 spent for transporting Covid Patients would be reimbursed by them, the amount had been stated as an expenditure for the year under review, therefore expenditure had been overstated by Rs.100,000	State that that amount had been accounted erroneously by mistake and actions would be taken to correct it in the future.	The Expenditure should be accurately categorized.

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| (d) | The total of the accumulated fund and reserves had been stated in the Balance Sheet and the Statement of Changes in Net Assets as Rs.327,969,332 and Rs.327,598,520 respectively therefore it had been understated by Rs.370,812. | Actions would be taken to make this correct in the future. | The balances presented in the balance sheet and the statement of changes in net assets should be equal. |
| (e) | Even though the variance between the cash flow statement and the net cash flow statement was Rs.4,009,174 for the year under review it had been reported as Rs.3,638,361 therefore it had been understated by Rs.370,813. | Actions would be taken to make this correct in the future. | The Cash flow statement should be prepared accurately. |
| (f) | The interests received of Rs.77,927 on the Fixed Deposits and the Savings Accounts had not been reported under the investment activities of the Cash Flow Statement for the year under review. | The Officers had been advices to prevent these kind of mistakes in the future. | The Cash flow statement should be prepared accurately. |

1.6.2 Unreconciled Control Accounts

Audit Observation

A difference had been observed of Rs.2,464,807 between 09 items of account balances and their balances in the supplementary documents and registers.

Comment of the Sabha

Errors had been occurred due to mistakes and the relevant officers had been advised to prevent these type of mistakes in the future.

Recommendation

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. 1,098,417 for the year ended on 31 December 2021 of the year under review as compared with the corresponding the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.2,205,699.

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
Sabha had not been taken actions to rent out Stall No.07 and No.24 in Lunugamveheta New Town according to the Circular No.SP/CPC/2010/01 dated 27 December 2010 of the Commissioner of Southern Provincial, therefore because of the negligence Key Money amounting to Rs.400,000 had been lost for the Sabha.	Actions would be taken to acquire the ownership of the stalls and recover the key money by the responsible officers who neglect the circulars, when it was not recovered by the lessee.	Actions should be taken according to the Circulars.

3.2 Deficiencies in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
An amount of Rs.1,281,000 had been spent out of the Provincial Specific Grants in the year 2020 to make 30 frames for Water Tanks and 10 out of 30 water tank frames purchased had been stored in Sabha over a year without utilizing.	Actions would be taken to distribute the rest of the iron frames.	The Water Tank Aids should be used in the expected task.