

Hingurakgoda Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hingurakgoda 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 net assets/ 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 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 Hingurakgoda Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 Sri Lanka Public Sector Accounting Standards, 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)

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 scepticism 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

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

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year 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 Policies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) As per Appendix 02 E.G 3.8- Disclosures of the Sri Lanka Public Sector Accounting Standard for Local Governments, the method of depreciation and the useful life or depreciation rates of the assets should be disclosed in respect of depreciation of property, plant and equipment, but no such disclosure was made for the depreciation of Rs.34,728,454 in the year under review.	I would like to inform you that necessary arrangements are being made to record all the disclosures regarding property, plant and equipment depreciation in the accounting policies.	Depreciation policy and depreciation percentages should be disclosed in the presentation of financial statements.
(b) According to the accounting codes mentioned in Annexure 1 of Appendix 2 presented with the Sri Lanka Public Sector Accounting Standards for Local Authorities, the	As per Local Government Commissioner circular instructions, it was stated under notes.	Should be done according to accounting standards.

library book balance should be accounted as an asset under inventory, but the library book balance of Rs. 3,899,825 of the local council has been removed from the financial statements and had been disclosed under note no.14.

1.6.2 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Although the capital expenditure grants received from the government and other institutions should not be recognized as income at once and should be charged to the comprehensive income statement on the basis of calculated depreciation, the total value of Rs.25,072,747 received as capital expenditure grants during the year under review had been charged to comprehensive income.	the necessary arrangements are made to recognize non-recurrent expenditure grants as income for the year as per the depreciation rate in the financial statements according to the Sri Lanka Public Sector Accounting Standards for Local Authorities.	This mistake, which has been pointed out since last years, should be corrected.
(b) According to paragraph 06(v) of Circular No. 2019/02 dated 31 December 2019 of the North Central Local Government Commissioner, roads, culverts and bridges must be depreciated at the rate of 10 percent annually using the diminishing balance method, but due to not calculating the depreciation amount of Rs.3,200,000 for the value of Rs.32,000,000 at the beginning of the year, the expense of the year was understated and the asset value was overstated from that amount in accounting.	Necessary arrangements are made to adjust the depreciation for the initial balance value related to roads, culverts and bridges.	Depreciation should be calculated accurately.
(c) Due to set off the Rates and Taxes received in advance amount of Rs.2,348,435 in accounting of Rates and Taxes receivables, the Rates and	The net result between the Rates and Taxes income receivable and the Rates and Taxes income received	In preparing financial statements, accounting should be done correctly.

Taxes revenue amount was under- in advance is accounted for
 accounted for and the Rates and Taxes in the financial statements.
 received in advance amount has not But according to the
 been accounted for under liabilities. accounting standards, the
 necessary action will be
 taken to show all the assets
 and liabilities.

2. Financial Review

2.1 Financial Results

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. 8,106,562 as against the excess of expenditure over recurrent revenue amounted to Rs. 46,276,912 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
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Rent -----		
(i) Although a building belonging to the Pradeshiya Sabha was given to set up the regional engineering office without entering into a contract on a monthly rental basis of Rs.10,000 from 16 November 2016, based on the decision of the administrative committee bearing No. 945 of 2016, but the related rent amounting to Rs.610,000 had not been recovered until the end of the year under review.	Action will be taken immediately if the payment is not made.	Arrangements should be made to settle the arrears of income.
(ii) Out of the outstanding shop rental balances at the end of the year under review, a value of Rs.3,385,074 related to 66 shops remained outstanding as at 31 August 2022.	Prompt action will be taken to collect the arrears.	The arrears should be recovered.