

## **Welikanda 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 Welikanda 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 Welikanda 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**

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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**

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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)**

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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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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

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### 1.6.1 Accounting Policies

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	<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
(a)	According to Appendix 02 presented with the Sri Lanka Public Sector Accounting Standard, instructions were given to account for library books under current assets, but the council had accounted for library books under fixed assets.	Necessary arrangements will be taken to account for library books under current assets in the future,.	Action should be taken according to the Standards.
(b)	According to Rules No. 96 on accounting matters related to the financial administration of Pradeshiya Sabha, comparative information related to the previous year was not presented with the financial statements.	From this year onwards, the comparative information related to the previous year will present along with the financial statements.	Action should be taken according to the Rules.

### 1.6.2 Accounting Deficiencies

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	<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
(a)	According to the EG 2.7 of Appendix 02 presented with Sri Lanka Public Sector Accounting Standards for Local Governments, although all grants received from the government and local authorities under capital expenditure grants should be	Action will be taken to include in the future.	Action should be taken according to the Standards.

debited to a new account to be opened under net assets/Equity, capital grants of Rs.13,765,826 received in the year under review were understated in the financial statements.

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| (b) | Six fixed asset items value of Rs.1,688,078 and 15 current asset items value of Rs.1,822,260 purchased under the LDSP project during the year under review were not accounted for.  | All assets were accounted for.   | All asset values should be presented in the financial statements.                    |
| (c) | The value of the recirculating water filter purchased from the Sabha fund during the year under review amounted to Rs.935,000 and it was not accounted under assets.  | It was recorded under machinery and equipment in the fixed asset register.   | Assets should be identified and accounted for.                                       |
| (d) | Due to non-identification of income belonging to the Sabha by consulting the district land registrar's office before preparing the financial statements, although the stamp duty income for the year under review was Rs.2,836,000, the value shown in the financial statements was Rs.306,000, thus the stamp duty income was understated by Rs.2,530,000. | Since the relevant information had not been received by the date of preparation of the financial statements for 31 December 2021, an estimated amount had been included in the financial statements. | Income should be identified and accounted for.                                       |
| (e) | The expenditure of Rs.1,068,500 spent on providing new water connections in the year under review was written off as expenses without being capitalized.  | The cost of Rs.1,068,500 has been used to buy PVC pipes and those costs have been allocated as recurrent expenses under the 2021 budget and therefore these costs have been mentioned as recurrent.  | Capital expenditure and recurrent expenditure should be identified and accounted for |
| (f) | A TV set and accessories worth Rs.36,395 purchased for the Covid Control Call Centre and 08 tab machines worth Rs.316,000 purchased and stored in October 2021 were not accounted for under   | The purchased television set worth Rs.32,950 was recorded under machinery and equipment in the fixed asset register, and the 08 tab machines purchased and   | Assets should be identified and accounted for.                                       |

assets in the financial statements. stored in October 2021 were recorded under computer equipment.

- (g) The work-in-progress value of Rs.1,921,346 relating to 03 projects implemented for the year 2021 had been omitted from the financial statements. Action will be taken to include the value of the work in progress in the future. Action should be taken according to the Standards.

**2. Financial Review**  
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**2.1 Financial Result**  
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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 2021 amounted to Rs. 9,894,878 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 882,185 in the preceding year.

**3. Operational Review**  
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**3.1 Uneconomic Transactions**  
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**Audit Observation**  
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**Comments of the Management**  
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**Recommendation**  
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The details regarding the non-biodegradable waste storage worth Rs. 1,236,921 which was constructed at the weekly market of Nelumwewa village were not documented in the Pradeshiya Sabha and the 03 buildings and the garbage storage built for the weekly market were not utilized even by August 2022 due to the non-implementation of the planned project.

The planned project report intends to use the relevant buildings.

Assets should be documented and utilized.

### 3.2 Management Inefficiencies

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**Audit Observation**

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Although, 312 tons of garbage generated annually in the Sabha's jurisdiction was disposed of in the year under review at the disposal site at Athugala owned by the Sabha at a cost of Rs.948,700 and Rs.354,053 respectively for 04 workers and 02 machines, a solid waste management plan was not in place to produce organic fertilizers using biodegradable waste.

**Comments of the Recommendation  
Management**

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Garbage disposed daily is buried once a week.

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Waste should be managed in a manner that does not harm the environment and wild animals.