

Imbulpe Pradeshiya Sabha - 2021

1. Financial Statements.

1.1. Qualified Opinion.

The audit of the financial statements of the Imbulpe Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations for the year then ended including a summary of significant accounting policies and other explanatory information 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 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 published 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 Imbulpe Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2. Basis for Qualified Opinion

My opinion is qualified based on the matter 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 the 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 Principles, and for such internal as management determine is necessary to enable the preparation of the financial statements that are free from material misstatements, 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 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 misstatements, 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 a 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 misstatements in financial statements whether due to fraud or error 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 an 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 the other Legal Requirements

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

- a) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as required by 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 required by Section 6 (1) (d) (IV) of the National Audit Act No. 19 of 2018 except the observation shown in the paragraph 1.6.1 (b) of this report.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

<u>Audit Observation</u>	<u>Comments of The Sabha</u>	<u>Recommendations</u>
(a) The cost incurred for the improvement of buildings owned by the Sabha during the year 2021 amounted to Rs 5,292,848 had not been capitalized. As such, the fixed assets and the balance of the revenue contribution to capital outlay account had been understated by that amount.	The relevant amount will be corrected and capitalized through a journal entry.	The expenditure incurred for the improvement of buildings should be capitalized.
(b) The error in accounting of previous year stamp duty revenue as expenditure amounted to Rs. 460,275 had not been rectified during the year under review and under provision of stamp duty in the year under review amounted to Rs. 5,875,970 were not accounted for.	It had been informed that it will be rectified by a journal entry.	Relevant accounts should be rectified.
(c) Although the estimated court fine revenue for the year under review was Rs. 1,861,109, it was accounted as Rs. 1,051,566 and, as such, the surplus for the year and the current assets were understated by Rs. 809,543.		
(d) Due to the Industry Debtors related to previous years amounted to Rs. 5,558,803 had been written off as over provisions of debtors and re-accounted as debtors in the year under review, the capital income of the year was over stated by that amount.		
(e) Due to the Industry Creditors related to previous years amounted to Rs. 4,130,949 had been written off as over provisions of creditors and re-accounted as creditors in the year under review, the capital expenditure of the year was over stated by that amount.	It had been informed that it will be rectified by a journal entry.	Relevant accounts should be rectified.

- (f) Although an amount of Rs. 628,094 was debited to Capital Expenditure Account and credited to Creditors Account by Journal Entry No. 148, related transactions or agreements had not taken place during the year under review. As such, capital expenditure and creditors of the year had been over stated by same amount.
- This error will be corrected during the preparation of the financial statements of the year 2022.
- Expenditure related to the year should be correctly identified and accounted for.

1.6.2. Unreconciled Control Accounts or Reports

<u>Audit Observation</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
A total difference of Rs. 1,110,667 was observed between the balances shown in the financial statements and the source documents relating to 03 subjects.	Action will be taken to rectify the errors in the future.	The balances shown in the financial statements should be reconciled with the source documents.

1.7. Non – compliance with Laws, Rules , Regulations, and Management Decisions.

The instances of non – compliance with laws, rules, regulations, and management decisions are given below.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non – compliance</u>	<u>Comments of the Sabha</u>	<u>Recommendations</u>
Financial Regulation 371 (5) of Financial Regulation of Democratic Socialist Republic of Sri Lanka.	Due to inability to recover unrecognized advances relating to the period from the year 2002 to the year 2009 amounting to Rs. 3,193,731 were referred to the Governor for the approval of write off and 03 recurrent advances total amounted to Rs. 284,110 and 06 capital advances total amounted to Rs.	.Vouchers and information related to these advance payment were unable to trace. These have been forwarded to the Commissioner of Local Government with the information available for obtaining the necessary approval for write off from the registers. The necessary precautions have already been	Action should be taken in terms of Financial Regulations.

638,586 issued from implemented to avoid the year 2010 to the such issues in the year 2020 were not future. settled even by the end of the year under review.

2. Financial Review

2.1 Financial Results.

According to the financial statements presented, the excess of the revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 10,168,196 as against the excess of recurrent revenue over the expenditure of the preceding year amounted to Rs. 9,772,843.

2.2 Revenue Administration.

Performance in Collection of Revenue.

<u>Audit Observation</u>	<u>Comments of The Sabha</u>	<u>Recommendations</u>
Water Charges		
The Sabha had not taken adequate action to recover arrears of water charges relating to the year under review and the preceding years amounting to Rs. 6,233,415 from 2546 private sector water consumers and amounting to Rs. 89,953 from 16 public institutions even by 31 March 2022.	Actions are being taken to recover the due water charges.	Action should be taken to recover due income.

3. Operational Review.

The matters observed in respect of the activities that should be carried out by the Sabha such as regularize and control over the matters of public health, public utility services and thoroughfares and the comfort ,facilities and wellbeing of the people under Section 3 of the Pradeshiya Sabha Act are given below.

Administration of Vehicle Fleet

three-wheeler and a sum of Rs. 1,950,303 had been spent for the repair of the vehicle. Although the initial report was prepared in terms of Finance Regulation 104(3) in respect of the accident, the parties responsible for the unreimbursed loss of Rs. 630,244 by the insurance coverage could not be identified and take further action accordingly, due to the final report had not been prepared even by 30 June 2022 by the investigation committee appointed by the Local Government Commissioner on 14 March 2019 as per the Financial Regulation 104(4).

4. Accountability and Good Governance

Not Achieving of Expected Out Come

Audit Observation

Although a sum of Rs. 4,561,397 had been spent for the development of Pabhahinna Weekly fair (Sathipola) in the years 2015 and 2017, it remained idle even at the end of the year under review due to the balance development works were not done to be suitable for holding the fair.

Comments of the Sabha

Estimates have been sent for approval for the construction of balance works of the weekly fair under the provisions of the Ministry of Local Government to complete the balance works of this fair in 2018. After receiving the financial allocation, the weekly fair will be prepared to use by the vendors.

Recommendation

Provisions should be made available and developed to hold the fair.