

Pelmadulla Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pelmadulla 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, statement of cash flow, significant accounting policies and the summary of 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 the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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 Pelmadulla Pradeshiya Sabha as at 31 December 2021 and of its financial performance and its cash flows 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 Responsibility for the Audit of 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 financial reporting process of the Pradeshiya Sabha.

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Auditor's Responsibility 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 exercise 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 the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year.

- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (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 -----	Comments of the Council -----	Recommendation -----
(a)	When accounting of the value of land and buildings account, the income contribution to capital account was restated by Rs. 147,201,417.	It will be corrected when the preparation of accounts for the next year.	Action should be taken to account the correct values.
(b)	The assets worth Rs. 1,046,590 that should be removed from the machine and machinery account and accounted under the computer equipment and fittings were recapitalized by that amount in the income contribution account.	It will be corrected in next year.	Correct values should be recorded in correct accounts.
(c)	Although the allocated loan balances value of Rs. 5,737,330 in the year 2018 had been settled, those balances were not removed from the balance of creditors.	It will be corrected in next year.	Settled balances of the creditors should be removed from the accounts.
(d)	Billing of fish stall rent of Rs. 2,020,202 related to the year under review were not accounted.	Maintain the ledger accounts properly to identify the billings correctly.	The income for the year should be accounted on accrual basis.
(e)	According to the board of survey recommendations of the year 2020, the cost of 51 items of auctioned goods at Rs. 186,367 in the year under review had been recognized and those values had not been removed from the assets accounts.	It will be corrected in next year.	Correct values should be identified and recorded in the accounts.

1.7 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with Laws, Rules, Regulations and management decisions are as given below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the council	Recommendation
Financial Regulation 571 (2) of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Rs. 484,140 related to 10 industrial deposits and Rs. 776,522 related to 02 mixed deposits in the period from the year 2007 to the year 2019 had not been acted as per the referred Financial Regulations.	Arrangements are made to regularize deposits that are overdue for more than 02 years.	Should be followed the referred regulations.

2. Financial Review

2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2021 was Rs. 14,019,656 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 885,672.

2.2 Revenue Administration

2.2.2 Performance of the Revenue Collection

Audit Observation	Comments of the Council	Recommendation
Assessment and Taxes		
Rs. 6,953,911 had been failed to recover regarding 5535 assessment units at the end of the year under review.as Rs. 94,655 shortage in relation to 31 government institutions and Rs. 6,859,256 in relation to 5034 personal units.	The arrears are being recovered and that new assessment estimation has been applied.	Arrangements should be made to collect the revenue to be charged to the council without delay.

3. **Operational Review**

The following are the facts observed regarding the performance of the council's duties of regularizing and controlling the matters of public health, public utility services and public roads and the welfare, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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The council had not been approved a formal method of identifying unauthorized constructions from the year 2017 to the year 2021 and only 66 unauthorized constructions were identified through public complaints and field inspection and the council had only informed the Pelmadulla Divisional Secretariat and the Road Development Authority regarding 56 of them.	Action will be taken to formalize.	Illegal constructions should be identified and acted in legally.