

## **Pathadumbara 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 Pathadumbara Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of Financial Position as at 31 December 2021, Statement of Financial Operations 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 financial statements give a true and fair view of the financial position of the Pathadumbara 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**

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I expressed qualified opinion 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**

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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 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 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

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

- (a) The financial statements of the Pradeshhiya 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 Deficiencies

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Audit Observation	Comments of the Sabha	Recommendation
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(a) The value of 02 cabs of Rs.6,990,000 belonging to the Sabha was not shown in the financial statements.	The accounting error has been corrected in the account in 2022.	Financial statements should be prepared accurately.
(b) According to the fixed assets register, the value of a tractor and trailer costing Rs.1,400,000 had been understated by Rs.631,600 stating as Rs.768,400 in the financial statements.	Action had been taken to correct in the future.	Financial statements should be prepared accurately.
(c) The fixed deposit interest receivable for the year under review had been overstated by Rs.1,869,074 in the financial statements.	Action had been taken to correct in the future.	Financial statements should be prepared accurately.

### 1.6.2 Unreconciled Control Accounts or Records

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Audit Observation	Comments of the Sabha	Recommendation
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There were difference of Rs.32,527,923 between the total balances of Rs.252,306,396 related to 13 accounting subjects shown in the financial statements and the balances as per the schedule.	Action had been taken to rectify errors.	Differences should be recognized and financial statements should be prepared correctly.

### 1.6.3 **Documentary Evidences not made available for Audit**

Audit Observation	Comments of the Sabha	Recommendation
due to non-submission of related documents, schedules and balance confirmations, regarding 03 asset subjects of Rs.178,884,597 and 07 liability subjects of Rs.20,631,923; they could not be satisfactorily verified during the audit.	It has been informed that it will be corrected in the future.	All evidence that confirm the account balances shown in the financial statements should be submitted to the audit.

## 1.7 **Non- Compliances**

### 1.7.1 **Non-compliance with Laws, Rules and Regulations**

Following are the instances of non-compliance with laws, rules and regulations observed during sample audits.

Reference to Laws, Rules Regulations etc	Non- Compliances	Comments of the Sabha	Recommendation
(a) Section 158(1) of the Predeshiya Sabha Act No. 15 of 1987	Assessment tax in arrears of Rs.5,271,027 as on December 31 of the year under review had not been recovered.	The relevant Institute have been informed and if the payments continue to be defaulted, the property will be seized as per the law.	The provisions of the Act should be complied with.
(b) Regulations 571 (2) of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Financial regulations had not been followed in relating to 157 deposits of Rs.2,770,240, which were deposited more than 02 years ago.	Actions have been taken to correct it in the future.	Financial regulations should be followed.

## 2. **Financial Review**

### 2.1 **Financial Result**

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.23,269,675 as compared with the excess of revenue over recurrent expenditure amounted to Rs.37,080,319 in the preceding year.

## 2.2 Revenue Administration

### Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
<b>(a) Rates and Taxes</b>		
Rs.3,009,837 out of the outstanding balance of Rs.4,367,529 at the beginning of the year under review, and Rs.3,797,289 out of the billings of Rs.7,798,690 had not been collected during the year, and the outstanding balance as of December 31 of the year under review was Rs.5,340,174.	In the future, red notices will be issued for properties with arrears of assessment and after that actions will be taken to seize the property.	Arrears should be recovered.
<b>(b) Rent</b>		
As on December 31 of the year under review, the rent receivables balance was Rs.810,135. Out of which Rs.647,660 was the balance to be collected from 6 units exceeding Rs.50,000 per unit and Rs.235,310 was the balance to be collected from one person in relation to a stall in Madawala trade complex.	Rs. 204,400 has been charged from this balance and the remaining money has been charged in the future.	Rent in arrears should be recovered.

## 3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
Rs.1,980,000 had been spent on repairing the Aluthgama market by the year 2019, but no income had been earned in the previous year and the year under review.	It has been informed that a Agreement will be entered into in the future for the construction of shops at the expense of the business community.	Actions should be taken to generate income from the properties owned by the Sabha.

3.2 **Assets Management**

Audit Observation	Comments of the Sabha	Recommendation
04 vehicles and 03 garbage carts worth Rs.4,264,465 belonging to the Sabha remained idle for a period between 05 to 10 years, and the no action had been taken to restore or disposed of said vehicles.	It has been informed that it is expected to repair 02 vehicles and to auction the other 02 vehicles and 3 garbage carts.	Action should be taken to repair and put to the Vehicles or dispose of.

3.3 **Human Resources Management**

Audit Observation	Comments of the Sabha	Recommendation
Employee loan A total of Rs. 699,247 distressed loan balances of 10 officers who were transferred, retired, suspended and left service were not collected for more than 04 years.	The irrecoverable balance is Rs.100,102 and the remaining balance is being charged.	Loan receivables should be recovered.