

Pathahewaheta Pradeshiya Sabha – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pathahewaheta Pradeshiya Sabha including the financial statements for the year ended 31st December 2021 comprising the balance sheet as at 31st December 2021, Income and Expenditure Account 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 Pathahewaheta pradeshiya Sabha as at 31st 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

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

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)**

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 Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The wages in arrears of Rs.550,919 which had been paid during the year under review in respect of the period from August 2019 to September of the previous year, had been accounted as an expense of the year under review and as a reimbursement income.	Action will be taken to account correctly in the future.	Only the expenditure related to the year should be correctly accounted for
(b) The loan instalment of Rs.829,211 to be paid to the Local Loan and Development Fund in the coming year was shown in the balance sheet under long-term liabilities.	That it will be corrected through the final accounts of the year 2022	Loan instalments due in the next year should be accounted under current liabilities

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.2,418,187 between the balances according to the accounts related to 07 account subjects stated in the financial statements at the end of the year under review and the balances of the source documents.	That, the balance has been omitted by mistake in the preparation of the documents and other documents will be checked and corrected.	The reasons for the changes should be identified and corrected.

1.7 Non- Compliances

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

Followings are the cases where laws, rules, regulations and management decisions were not complied with.

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Comments of the Sabha -----	Recommendation -----
Pradeshiya Sabha Act No. 15 of 1987 ----- Section 158 (1)	Action had not been taken to recover arrears of assessment taxes amounting to Rs.5,401,447 by freezing the immovable or movable properties concerned and selling them.	Before the end of the first quarter, mobile services were conducted and red notices were sent and actions are being taken to ban the properties.	The tax should be collected by following the Act

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 31st December 2021 amounted to Rs.39,623,149 as compared with the excess of revenue over recurrent expenditure amounted to Rs.42,543,077 in the preceding year.

2.2 Financial Control

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
According to Section 130 of the Pradeshiya Sabha Act No.15 of 1987, all money received by a Pradeshiya Sabha and payable to the Pradeshiya Sabha Fund shall be credited to an account designated as "Pradeshiya Sabha Fund" in an approved bank, but the income collected from the Deltota sub-office of the Pradeshiya Sabha had been deposited in a separate savings account. As of the year under review, a balance of Rs.9,760,980 remained underutilized in that account.	That necessary arrangements are being made to transfer the amount to the official current account and deposit it in a fixed deposit	The money owned by the council should be used effectively.

2.3 Revenue Administration

Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates		
i. At the end of the year under review, the assessment tax amounting to Rs.5, 971,994 had not been collected, and in that balance, Rs.871,480 due from 29 government assessment units over 05 years, Rs.814,965 due from 17 assessment units of which the arrears of one assessment unit is more than Rs.10,000 and over 05 years had been included.	Letters, reminders about outstanding balances as well as information about detailed balances for an outstanding balance of more than 05 years have been sent to the relevant institutions, and out of that an amount of Rs.225,000 has been collected.	Assessment tax in arrears should be recovered.
ii. At the end of the reviewed year, the acre tax of Rs.1,301,342, due from 395 units in the council area of authority had not collected and in that balance, the balance of Rs.1,030,564 due from 316 lessees whose arrears per unit exceeded Rs.1,000 for more than 05 years was included.	That acre tax has not been collected for a long time, therefore, the incorrectly billed fees have been forwarded to the minister in charge for approval, accordingly Rs. 621,167 have been referred to be deducted and in the future, mobile services will be conducted and arrears will be collected.	Acreage taxes in arrears should be recovered.
(b) Water charges		
During the year, Rs.14,706,833 or 86 percent of the outstanding water charges of out of Rs.16,937,738 at the beginning of the year under review were not collected. Only Rs.18,100 or 01 percent had been collected during the year from the outstanding balance of Rs.1,351,613 in an inactive water project.	Due to the Covid epidemic situation, it was not possible to conduct mobile services and disconnect water connections, and in the future, charges will be collected accordingly.	Water charges in arrears should be recovered.

(c) Shop rent

The arrear rent due from 84 shops including Rs.720,228 due from 06 butchers belonging to the Pradeshiya Sabha was Rs.1,396,710 as on December 31 of the year under review, and the said money was not collected.

Cases have been filed for outstanding rents, arrears are being collected and notices have been issued for recovery of other arrears.

Shop rent in arrears should be recovered.

(d) Other income

Although the three-wheeler charges revenue for the year under review was estimated at Rs.563,400 Since the actual income was Rs.106,300 or 19 percent of the estimated income, sufficient effort had not been made to recover the arrears. Also necessary action had not been taken in respect of Rs.992,100 identified to write off from outstanding three-wheeler charges.

Despite taking formal measures, due to the current economic situation, it was not possible to collect the arrears

Action to be taken in respect of balances identified for collection and write-off of arrears of three-wheeler license fees.