

Udapalatha Pradeshiya Sabha – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Udapalatha 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 Udapalatha 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) At the end of the year under review, the Project debtors and creditor balance in the financial statements had been over stated by Rs.423,938 in the financial statements.	It will be corrected in the final accounts for the year 2022.	Project debtors and creditor balances should be correctly accounted for
(b) At the end of the year under review fixed deposit interest receivables had been understated and fixed deposit investment balance had been overstated by Rs.1,031,425 in the financial statements.	That, it has been accounted for in the final accounts of the year under review.	Interest receivable and investments should be accurately accounted for.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.10,157,112 between the balances related to 04 account subjects as per the financial statements at the end of the reviewed year and the balances in the schedules.	That will be corrected in the preparation of financial statements for the year 2022.	The differences between the balances in the financial statements and the schedules should be corrected

1.7 Non- Compliances

Non-compliance with Laws, Rules and Regulations

Followings are the instances where laws, rules and regulations were not complied with.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
Financial regulation 571	No action had been taken in relating to overdue industrial deposits of Rs.523,030 relating to 13 cases from the year 2012 to the year 2019	That, it will be taken into the council's income.	Actions should be taken in accordance with the financial regulations

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.33,000,479 as compared with the excess of revenue over recurrent expenditure amounted to Rs.29,614,163 in the preceding year.

2.2 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		
As on December 31 st of the year under review, the arrears of assessment tax revenue of Rs.2,352,829 had not been collected and in that balance, Rs. 862,593 due from 99 customers of which the arrears per unit was more than Rs.5,000, Rs.709,986 due from 79 assessment units of which the arrears per unit was more than	A part of the arrears of assessment has been collected and the relevant letters have been forwarded to collect the outstanding amount.	Action should be taken to recover assessment tax in arrears.

Rs.5,000 for more than 05 years, and Rs.86,862 due from 34 units where the balance is recorded as "Owner" without the name of the customer being mentioned in the assessment register, Rs.59,431 due from 26 government agencies were included.

(b) Water charges

The Water charges of Rs.3,095,924 due at the end of the year under review had not been collected, and in that balance, the Rs.1,230,891 due from 171 customers of which arrears per unit was exceeding Rs.5000; Rs.1,199,099 due from 165 customers of which arrears per unit was exceeding Rs.5000 for more than 5 years of period had been included.

Disconnection notices have been sent to collect arrears of water tax and uncollectible balances will be written off on Council approval.

Action should be taken to collect the arrears of water charges

(c) Rent

Shop rent

- i As at the end of the year under review, the arrears of shop rent included in the financial statements amounting to Rs.2,979,594 had not been collected and In that balance, Rs.2,842,130 due from 66 shops of which the arrears per unit was above Rs.5,000 and Rs.2,138,578 due from 37 shops of which arrears per unit was more than Rs.5,000 for more than a period of 05 years were included.

There is a problem of identification of arrears in Pussellawa sub-office, a part of the other arrears has been collected and outstanding balance will be recovered.

Action should be taken to recover the shop rent in arrears.

- ii The arrears of old shop rent which should have been ongoing since 2014 was Rs.383,059, and sufficient measures had not been taken to collect that amount.

Unable to recover due to inability to find detailed information

Action should be taken to recover the shop rent in arrears.

(d) House rent

At the end of the reviewed year, house rents of Rs.200,934, which have been outstanding for more than 05 years, have not been collected.

That, it is a long standing balance and information is being gathered for recovery.

Arrears of house rent should be collected

(e) Advertising board charges

The arrears of Advertising board fees of Rs.3,436,900 as shown in the financial statements were not charged, and the balance included Rs.3,430,300 due for 43 Advertising boards in businesses where the arrears per Advertising board was more than Rs.5,000.

Litigation for recovery, reminders, surveys are being carried out.

Advertising board charges in arrears should be Recovered.

(f) Three wheeler license fees

At the end of the year under review, three-wheeler license fees of Rs.865,200 included in the financial statements had not been collected, and that balance included Rs.446,400 due for the 105 three-wheelers whose arrear per unit was more than Rs.2,000.

Due to the corona epidemic situation and economic difficulties, the arrears will show up to the middle of the year and action will be taken to conduct surveys in the future to collect the arrears.

Three wheeler license fees 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 03 of the Pradeshiya Sabha Act are shown below.

3.1 **Management Inefficiencies**

Audit Observation

Comments of the Sabha

Recommendation

(a) Account receivables

At the end of the reviewed year, the total of Rs.5,449,835 accounts receivable balance, which had elapsed a period of 05 years, had not been collected.

A part is collected and action will be taken to the collect the balance.

Accounts Receivable balances should be collected.

(b) Account payables

At the end of the year under review, the balance due amounting to Rs.846,053, which had exceeded a period between 01 and 05 years, had not been settled.

That, part is settled

Accounts Payable balances should be settled

3.2 **Idle or underutilized Property, Plant and Equipment**

Audit Observation	Comments of the Sabha	Recommendation
<p>A car, a tractor and 02 motorcycles belonging to the council worth Rs.7,396,495 were taken out of use for repair work in between 2019 to 2021 but it had remained idle without completion the repair work.</p>	<p>That the necessary arrangements are being made for taking over possession and repairs</p>	<p>Vehicles that can be repaired should be repaired.</p>

3.3 **Human Resources Management**

Audit Observation	Comments of the Sabha	Recommendation
<p>Employee vacancies and surplus</p> <p>At the end of the year under review, 27 vacancies in 14 approved staff posts had not been filled.</p>	<p>Vacancies exist on notice of temporary suspension of recruitment, and that employees are recruited on a daily basis for the vacancies.</p>	<p>Essential employee vacancies should be filled.</p>