

Ambagamuwa Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ambagamuwa Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Sabhas 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 presented 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 Ambagamuwa Pradeshiya Sabha as at 31 December 2020, 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 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 Principles, 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 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 and 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 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors 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 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 Other Legal Requirements

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

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented 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	Comment of the Sabha	Recommendation
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(a) Advance amounting to Rs. 125,000 paid to the Maskeliya Co-operative Society for obtaining fuel for the vehicles of the Maskeliya Sub Office had not been transferred to the Maskeliya Pradeshiya Sabha but had been shown under pre payments and advances. This had been shown in the previous year's report as well.	Action will be taken to settle the relevant issue and eliminate it.	Action should be taken to correct this in the preparation of financial statements for the ensuing year.
(b) Although Rs. 529,912 credited to the Office Equipment Account should be debited to the Revenue Contribution to Capital Input Account, that value had been adjusted to the accumulated fund. Accordingly, the accumulated fund had been understated by Rs. 529,912.	Error will be corrected by making journal entries.	This error should be corrected in the preparation of financial statements for the ensuing year.
(c) No provisions had been made in the accounts for audit fees for the year under review and the preceding year.	Action will be taken to show audit fees under the creditors in the year 2021.	This should be corrected in the preparation of financial statements for the ensuing year.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation

There was a difference of Rs. 529,912 between the balances as per the financial statements and the balances as per the corresponding reports relating to an item of account.

Comment of the Sabha

This error will be corrected by making a journal entry.

Recommendation

This should be corrected in the preparation of financial statements for the ensuing year.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation

An account balance of Rs. 11,750,472 relating to an item of account could not be verified in the audit due to lack of schedules.

Comment of the Sabha

This situation has arisen due to failure to reimburse majority of debtor / creditor balances and showing false balances related to development projects.

Recommendation

Information required for the audit should be furnished.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 31,943,635 for the year ended on 31 December of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 25,748,348.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation

(a) Rates and Taxes

Of the arrears of Rs. 1,373,201 as at 01 January of the year under review, a sum of Rs.574,938 only had been recovered during the year.

Comment of the Sabha

Steps are being taken to recover the arrears further remained recoverable.

Recommendation

Action should be taken to recover the revenue in arrears without delay.

(b) Rent

Although estimated revenue from rent was Rs.6,540,000, billed revenue was Rs.3,047,450 or 46 per cent of the estimated revenue. The revenue collection was Rs. 1,903,376.

Although the current Corona epidemic has hampered revenue collection in 2020, mobile services will be implemented to collect arrears in 2021.

Action should be taken to recover the revenue in arrears without delay.

- ii. Although Rs.763,214 was due for rent and fees (tenders) as at 01 January 2020, only Rs.15,000 had been collected.

Although the current Corona epidemic has hampered revenue collection in 2020, mobile services will be implemented to collect arrears in 2021.

Action should be taken to recover the revenue in arrears without delay.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Advance payments of Rs. 3,470,980 made on 199 occasions to various individuals and institutions from 1995 to 2020 had not been settled as at 31 December of the year under review and Rs.1,834,888 and 192 advances were further remained unsettled on 31 October 2021.	It has been informed that action will be taken to settle advances in the future.	Action should be taken to settle it without delay.
(b) Adequate steps had not been taken to recover a sum of Rs. 26,009,720 from the debtors that had continued to exist for more than 03 years.	It has been informed that action will be taken to recover money from the debtors without delay.	Action should be taken to settle it without delay.

3.2 Delays in Project Activities or Capital Work

Audit Observation	Comment of the Sabha	Recommendation
<p>Although provision of Rs. 78,043,000 had been made for development projects in 2020, the financial progress was only 11 percent as the value of the completed work was only Rs. 8,313,130. Only one project had been completed as at 11 December 2020 and only 07 projects had achieved more than 75 per cent physical progress. The physical progress of 27 projects was less than 50 per cent and there were 10 works with less than 10 per cent physical progress.</p>	<p>All the work in the development proposals could not be completed as expected due to the failure to perform my duties properly in the face of the current epidemic situation and works will be completed in the year 2021.</p>	<p>Action should be taken to complete the work in such a way as to provide maximum service to the public from the provisions received during the year.</p>