

Rattota Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rattota 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 Rattota 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
(a) Although the construction work of 03 projects with estimated value of Rs.1,700,000 had not been commenced that value had been accounted under the creditors in 2017 and 2019 and it had been shown in the financial statements of the year under review without making relevant adjustments.	Action will be taken to correct it in the accounts for the year 2021.	Account balances should be corrected..
(b) Despite recovering sum of Rs.1,487,335 accounted for under debtors on 16 occasions during the period from 2014 to 2016 in each year, it had been further stated in the accounts under the debtors.	Action will be taken to correct it in the accounts for the year 2021.	Account balances should be corrected.
(c) The retention money of 17 projects amounting to Rs. 551,179 had been accounted for under creditors during the period from 2013 to 2018.	Action will be taken to correct it in the accounts for the year 2021.	Account balances should be corrected.
(d) The remaining stock value of the stationery amounting to Rs.292,681 as at 31 December of the year under review had not been stated in the financial statement.	Action will be taken to correct it in the accounts for the year 2021.	Account balances should be corrected.

(e)	Industrial creditors had been overstated by Rs.69,100 in the financial statements for the year under review.	Action will be taken to correct it in the accounts for the year 2021.	Account balances should be corrected.
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1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
Although the total balances of 04 items of account shown in the financial statements was Rs.18,166,207, the total balances of the relevant subsidiary documents and reports was Rs.17,101,423. Accordingly, a difference of Rs.1,629,878 was observed.	Audit observation is accepted.	Accounts balances should be corrected.

1.6.3 Suspense Account

The balance of the Suspense Account amounting to Rs.15,462 which had been brought forward since 1997 was stated in the financial statements without making any relevant adjustments.

1.6.4 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to non-submission of files, documents, schedules and board of survey reports required to confirm the balance of Rs.34,494,921 in 17 items of account, those could not be satisfactorily verified in audit.	Action will be taken to correct it in the accounts for the year 2021.	Account balances should be corrected.

1.7 Non-compliance

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
Financial Regulation 571(3)	Without being taken action to settle 24 general deposits worth Rs.1,046,619, it had been retained in the General Deposit Account since the year 2016.	Accepted	Action should be taken in accordance with laws, rules, regulations etc.

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. 9,952,145 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.12,240,547.

2.2 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a) In terms of Section 158 (1) of the Pradeshiya Sabha Act No. 17 of 1987, a total of Rs.1,149,267 assessment tax had not been recovered on 354 properties that had been in arrears for more than a year.	Action will be taken to recover the arrears in the future.	Action should be taken to recover the arrears .
(b) Total of stall rent of Rs.1,711,165 of 35 stalls of which rent in arrears remained for more than 10 instalments had not been recovered as at 31 December of the year under review	Action will be taken to recover the arrears in the future.	Action should be taken to recover the arrears.
(c) According to the on-site inspection conducted on 39 business entities as a sample regarding the issuance of trade licences in the Sabha area on 16 December 2020, trade licenses had not been issued for 20 of the above business entities. As a result, the Sabha had lost Rs.35,000 in revenue only from those 20 entities which were examined in the inspection.	Action will be taken to recover the arrears in the future.	Action should be taken to recover the arrears.
(d) Out of 14 water schemes of the Sabha, 04 schemes remained dysfunctional from the year 2014 and 2017. No action had been taken to recover the arrears of water charges of Rs.386,339 from the inoperative water schemes as at 18 November 2020.	Charges could not be recovered due to Covid 19 pandemic.	Action should be taken to recover arrears.

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 Irregular Transactions

Audit Observation	Comment of the Sabha	Recommendation
<p>According to the plan relating to the Project of Slum Slaughter Houses Housing Scheme that was surveyed and made on 09 October 1978, the road accessing the Kuruwawa Oya (Deliwala Oya) from Matale-Rattota main road had been closed halfway and a private party had constructed a house on a land belonging to the Pradeshiya Sabha by blocking the access road near the Kuruwawa Children Park in front of the House No.37 depicted in the above plan.</p>	<p>Relevant parties have been informed to legalize the unauthorized constructions.</p>	<p>Legal action should be taken</p>

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
<p>The computer training centre established under the E-Nenasala Programme obtaining computers and accessories from the Sri Lanka Information and Communication Technology Agency had been closed from the year 2019. As a result, the rural children had missed the opportunity to follow a computer training programme under a concessionary rate and the value of these computer and accessories had not been assessed and stated in the financial statements.</p>	<p>Action will be taken to implement the programme in the future.</p>	<p>Course should be initiated and maintained.</p>

3.3 Deficiencies in the Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
<p>According to the work items No.03 and 05 of the payment bill of the roofing work of the community hall building near the Hunugal watta Devalaya, the Technical Officer had recommended that steel purlins in 62×62×6 mm had been used for the roof and Rs. 600,000 had been paid to the roof with 220 meters of steel purlins. However, it was observed in the physical inspection that steel purlins in 50×50 × 5 mm had been used for the roof and Rs.75,284 had been excessively paid therefor. It was further observed that there may be issues regarding the strength of the roof due to failure to use the steel purlins in accordance with estimated standard.</p>	<p>Overpayments will be calculated and recovered from the relevant contractual societies.</p>	<p>Following an inspection, necessary steps should be taken.</p>