

## **Hambanthota Pradeshiya Sabha - 2020**

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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 Hambanthota 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 Hambanthota 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**

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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**

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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 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)

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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 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

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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 except the observation stated in the section 1.6.1(a) in this report.

## 1.6 Audit Observations on the Preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) Statement of receivable Stamp Duty amounted to Rs.6,579,300 regarding the last years as a revenue for the year 2019 had not been corrected during the year under review.	The accounts would be taken to correct it in the future.	The revenue should be accurately accounted.
(b) An amount of receivable Stamp Duty relevant for the last year of Rs.464,900 had been stated as a revenue for the year under review therefore the revenue for the year under review had been overstated by Rs.464,900.	Actions would be taken to correct in the future.	The revenue should be accurately accounted.
(c) The Garbage Tax Billing of had been understated by Rs.51,500 and the Trade License fees had been overstated by Rs.1,000 for the year under review, therefore the revenue of the Sabha had been understated by Rs.50,500.	Actions would be taken to correct in the future.	The revenue should be accurately accounted.

(d)	The provisions for Creditors had been allocated on an aggregated amount of Rs.2,610,004 of 06 industries that had not been made the agreement within the year under review therefore the provisions for creditors had been over allocated.	The work could not be started due to the Covid-19 Pandemic Situation in the year 2020 but 05 out of 06 industries had been completed within the year 2021.	The Provisions should be made only on bounds that had been made the agreements.
(e)	An industrial creditor of Rs.65,074 had been understated as at the 31 December of the year under review, therefore the creditors balance had been understated by that amount.	Actions would be taken to correct in the future.	The provisions for the creditors should be made accurately.
(e)	The Machinery and Equipment purchased during the year under review of Rs.217,294 had not been capitalized.	Actions would be taken to correct in the future.	The Assets should be stated accurately.
(f)	The Front Office renovations capitalized under the Lands and Buildings during the year under review had been understated by Rs.71,000.	Actions would be taken to correct in the future.	The Assets should be stated accurately.
(g)	The Electric Flash Lights stock of Rs.146,250 at the end of the year under review had been stated under the Equipment and Tools except for stating them under the consumer goods.	Actions would be taken to correct in the future.	The Assets should be stated accurately.
(h)	10 Buildings owned by the Sabha had not been assessed the value and stated in the accounts.	The Lands and Buildings would be taken over by the relevant institutions and stated.	The assets should be assessed and stated.

## 1.6.2 Unreconciled Control Accounts

### Audit Observation

There had been a difference of Rs.12,855,089 relevant for 04 items of accounts, between the balances as per the financial statements of Rs.30,923,086 and the balances as per the corresponding reports.

### Comment of the Sabha

Actions would be taken to settle in the future.

### Recommendation

The differences of the relevant balances should be reconciled and corrected.

### 1.6.3 Lack of Documentary Evidence for Audit

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Audit Observation	Comment of the Sabha	Recommendation
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The necessary information had not been furnished regarding 03 items of accounts accumulated to Rs.154,643,551 for the audit.	Actions would be taken to prepare the supplementary documents and the time analysis.	The Evidence should be furnished to prove the balances declared in the Financial Statements.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.3,698,785 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.33,342,475.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in Collecting Revenue

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Audit Observation	Comment of the Sabha	Recommendation
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(a.) Rates and Taxes		
<p>i. Actions had not been taken to recover the rates receivable of Rs.814,306 and the rates had been charged on the assessment carried out in the year 2011 even though the property charged rates should be assessed in every 05 years, therefore an income had been lost for the Sabha for a period of 05 years which an assessment had not been carried out.</p>	<p>Actions would be taken to recover the arrears and even though a request had been made from the Department of Valuation.</p>	<p>The receivable revenue should be recovered as soon as possible and the Property should be assessed timely.</p>
<p>ii. Actions had not been taken to recover the Business tax and Industrial Tax receivable of Rs.21,450.</p>	<p>The Permission to write-off the arrears that should be recovered from the business closed down had been requested by the Governor.</p>	<p>The receivable revenue should be recovered as soon as possible</p>

(b.) Trade License Fees  
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| i. Actions had not been taken to recover the receivable Trade License Fees of Rs.725,630. | Forwarded to the Governor to write-off an amount of Rs.710,880. | The receivable revenue should be recovered as soon as possible. |
| ii. Action had not been taken to recover receivable hoarding Board Charges of Rs.302,000. | A law suit had been imposed to recover the rest of the arrears. | The receivable revenue should be recovered as soon as possible. |

(c.) Court fines and Stamp Duty  
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| The Court fines and Stamp Duty had been receivable from the Chief Secretary of the Sabha and the other officers of Rs.4,885,135 and Rs.25,245,653 respectively. | Actions would be taken to recover the arrears. | The receivable revenue should be recovered as soon as possible. |
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**3. Operating Review**  
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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 Identified Losses**  
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<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
Department of Valuation had been made an assessment of rent for the stalls owned by the Sabha on 26 January 2018 as Rs.1,350 from the first 06 stalls and Rs.2,000 from the last 06 stalls, but Sabha had been charged from the July of the year 2018 to the 31 December of the year under review Rs.450 and Rs.500 respectively from the stalls according to a decision made by the Sabha on 18 May 2018, therefore Sabha had been lost an income of Rs.432,000.	The area where the Stalls located was a less developed village, therefore the rent had been charged according to a decision made by the Sabha.	The Assessment made by the Department of Valuation should be implemented.

### 3.2 Inactive or Idle Property, Plant and Equipment

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The Restaurant Building constructed within the Mayurapura Weekly Fair Land of Rs.848,362 had not been made to be used efficiently during the year under review.	People had been recognized to hand over the restaurant but they had not been agreed to carry on the business.	The Assets should be effectively used.