

Ambalanthota Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ambalanthota 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 Ambalanthota 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) The aggregated loan instalments of Rs.3,057,680 payable to the Local loans Development Fund for the year 2021 had been stated in the Balance Sheet as a non-current liability except for stating it as a current liability.	Actions would be taken to make it correct in the final accounts for the year 2021.	The liabilities should be accurately stated in the balance sheet.
(b) Provisions had been allocated for the Creditors of Rs.1,017,752 at the end of the year under review for the Services without agreements.	The bills of rs.338,598 out of the amount not billed had been settled as at 31 march of the year 2021 and actions would be taken to avoid situations like this in the future.	The liabilities should be accounted accurately.
(c) The Barawakumubuka Hela Bojun Hala building that had not been finished construction even at the end of the year under review had been capitalized by its agreement value of Rs.800,000 under the Lands and Buildings therefore assets had been overstated by that amount.	Actions would be taken to avoid situations like this in the future.	The Assets should be capitalized accurately.

(d) Construction of the fence for the Barawakumubuka Library which capitalized in the year 2019 under Lands and Buildings, the expenditure had been understated by Rs.57,831	Actions would be taken to make it correct in the final accounts for the year 2021.	The capital expenditure should be accounted accurately.
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1.6.2 Unreconciled Control Accounts

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
There had been a difference of Rs.187,981 relevant for an item of accounts, between the balances as per the financial statements of Rs.3,940,599 and the balances as per the corresponding reports of Rs.3,752,618.	Actions would be taken to settle in the future.	The differences of the relevant balances should be reconciled and corrected.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
The necessary information had not been furnished regarding 05 items of account accumulated to Rs.14,936,013 for the audit.	The documents had not been prepared and actions would be taken to prepare the documents.	The Evidence should be furnished to prove the balances declared in the Financial Statements.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure exceeding the recurrent expenditure of the Sabha amounted to Rs.4,402,157 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.3,866,768.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a.) Rates and Taxes		
i. Actions had not been taken to recover the rates receivable of Rs.3,940,599 as at 31 December of the year under review	The revenue inspectors for charging the arrears had been appointed as the property Prohibition Officers and arrears would be recovered in the future.	The receivable revenue should be recovered as soon as possible.
ii. Actions had not been taken to recover the Business and Industrial tax receivable of Rs.363,950	Legal actions would be taken to recover the arrears	-do-
(b.) Rent		
i. Actions had not been taken to recover receivable Stall Rent of rs.186,803.	Actions would be taken to recover the arrears.	-do-
ii. Actions had not been taken to recover the rent receivable for the renting out the vehicles owned by the Sabha of Rs.1,494,559.	Actions would be taken to recover the arrears in the future.	-do-
iii. Agreements of 84 Stalls had not been under the Section 05 of the Circular No. දළඵා/ පළාතේකා / 2010/01 of the Commissioner of Local Government (Southern) on 27 December 2010 and the rent had not been charged on an assessment which updated at least every 05 years for 10 stalls under section 06.	Actions would be taken to assess the stalls, and to update the agreements of 84 stalls.	Actions should be taken according to the circular.
(c.) License Fees		
Actions had not been taken to recover the receivable License Fees and Hoarding Board Charges of Rs.195,500..	Actions would be taken to recover the rest of the amount.	The receivable revenue should be recovered as soon as possible.

(d.) Court fines and Stamp Duty

The Court fines and Stamp Duty receivable from the Chief Secretary of the Sabha and the other officers of Rs.18,445,352.	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

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 Operational Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
The trade license had been issued for 35 business places which the environmental license had not been obtained in the year under review within the authority of the Sabha and the management of the Sabha had not been taken any actions to encourage them to obtain the environmental license.	The license had not been issued for 35 businesses and actions would be taken to issue the environmental license in the future.	The institutes should be encouraged to obtain the environmental license.