

Chilaw Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chilaw Pradeshiya Sabha for the year 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial operations and the statement of changes in net assets for the year then ended and significant accounting policies and other explanatory information 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 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 accompanying financial statements give a true and fair view of the financial position of the Chilaw 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 on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 (Responsibilities of Auditors 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 exercise professional judgment and maintain professional skepticism 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, 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 Other Legal Requirements relating to Reports

Special provision with regard to the following were included in the National Audit Act No. 19 of 2018.

- (a) The financial statements of the Pradeshiya Sabha were similar to the previous year as per the requirement pointed out in Section 6(1)(d)(III) of the National Audit Act No. 19 of 2018.
- (b) Recommendations made by me during the previous year were included in the financial statements presented in terms of requirements pointed out in Section 6(I) (d) (IV) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations relating to Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observations	Comments of the Sabha	Recommendation
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<p>(a) A sum of Rs.230,744 received during the year 2019 and during the year under review as rental income of the motor grader had been retained in the miscellaneous deposit account without identifying as income and of this, income for the year under review had been understated in the accounts by Rs.226,300. Similarly, sums aggregating Rs.133,038 deposited in 04 deposits during the year 2021 had been added to the balance of the miscellaneous deposits account and as such the balance of the miscellaneous deposits account as at the end of the year under review had been overstated by the same amount.</p>	<p>I agree that a sum of Rs.226,300 was retained in the deposit register in the same manner and I inform you that action will be taken to rectify it in the year 2021.</p>	<p>Income for the year should be brought to account without avoidance and the deposit for the accounting year only should be shown in the relevant deposits account while preparing the final accounts.</p>
<p>(b) An asset identified as Munneswaram Rest Hall had not been presented along with the register of land and building. However, an agreement had been entered into for Rs.7,357,394 to renovate</p>	<p>I inform you that it will be brought to account correctly through the journal entries after completion of construction works of the entire building in the year 2021.</p>	<p>Expenditure recurrent and capital nature should be correctly identified and brought to account.</p>

such a building. A sum of Rs.5,269,292 had been paid for that up to 10 February 2021 and it had been shown as recurrent expenditure even though this is an expenditure of capital nature.

- (c) The balance of arrears of capital assistance amounting to Rs.258,175,088 had not been properly identified and it had consisted of balances receivable such as court fines, stamp fees and revenue assistance.

I inform you that those schedules will be submitted in detail again.

The financial statements should be presented with proper classification in the manner of non-inclusion of revenue assistance into the capital assistance.

1.6.2 Unreconciled Control Accounts or Reports

Audit Observations -----	Comments of the Sabha -----	Recommendation -----
According to the financial statements, the value of 05 items of accounts was Rs.319,507,736 whereas it was Rs.300,290,453 according to the corresponding reports and as such a difference of Rs.19,217,283 was observed between the values of accounts.	I accept that the balances of financial statements and the balances according to the subsidiary registers were not reconciled and I inform you that the financial statements as at 31- 12 – 2021 will be submitted by checking in that regard.	Action should be taken to identify the differences and correct the schedules and accounts.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observations -----	Comments of the Sabha -----	Recommendation -----
Six items of accounts amounting to Rs.132,589,464 could not be satisfactorily checked in audit due to non-submission of required information.	I inform you that the required information will be submitted at the time of preparation of financial statements for the year 2021.	Documentary evidence and schedules confirming the account balances shown in the financial statements should be submitted in an updated manner.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.73,355,184 as compared with the excess of revenue over recurrent expenditure of the previous year amounted to Rs.80,787,587.

2.2 Revenue Administration

2.2.1 Performance of the Collection of Revenue

Audit Observations	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
Sums aggregating Rs.2,786,282 had remained arrears out of the opening balance of arrears of rates and taxes and the value billed for the year.	I inform you that action will be taken to recover within the year 2021.	Action should be taken to expedite the recovery of arrears amount.
(b) Rent		
Sums aggregating Rs.1,266,777 had remained arrears out of the opening balance of arrears of stall rent and the value billed for the year.	I inform you that action will be taken to recover within the year 2021.	Action should be taken to collect it.
(c) Other Income		
A sum of Rs.120,442,542 had remained arrears at the end of the year under review.	I inform you that action will be taken to recover it in the year 2021.	Action should be taken to expedite the recovery of arrears amount.

3. Operating Review

Matters observed with regard to fulfilling regulation and administration of facts relating to public health, public utility services and public road, with the protection comfort, convenience and welfare of the people, by the Sabha under Section 3 of the Pradeshiya Sabha Act, are shown below.

3.1 Operating Inefficiencies

Audit Observations	Comments of the Sabha	Recommendation
<p>The lessee had evaded the payment of lease rental for the Munneswaram Rest Hall for the period from 25 September 2010 to 24 September 2013 and rentals amounting to Rs.181,347 had to be further recovered by the Sabha. The Sabha was unable to take legal action against the lessee on the basis of invalidity of the agreement entered into by the Sabha with the relevant lessee.</p>	<p>It was informed to the Commissioner of Local Government in this regard and at present the Department of Local Government has initiated preliminary inquiries with regard to nonrecovery of relevant amount of Rs.181,347. I inform you that it was recommended to conduct a disciplinary inquiry against the officer who had performed duty at that time.</p>	<p>Legality and validity should be existed in the agreements entered by the Sabha.</p>

3.2 Assets Management

Audit Observations	Comments of the Sabha	Recommendation
<p>Transferring activities of a land out of 16 lands which were being utilized by the Sabha but not transferred up to the year under review, had been completed in the year 2021. Even though it was informed that 02 lands were given only for development activities under the ownership of the Divisional Secretary, other 13 lands had not been transferred to the Sabha.</p>	<p>I inform you that action is being taken to transfer these 13 lands to the Chilaw Pradeshiya Sabha.</p>	<p>Action should be taken to carry out follow up actions with regard to expedition of transferring activities of lands.</p>