

Pasbage Korale Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pasbage Korale Pradeshiya Sabha including the financial statements for the year ended 31st December 2020 comprising the balance sheet as at 31st December 2020, Income and Expenditure Account (and Cash flow statement), Significant accounting policies and other explanatory information for the year then ended 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 Pasbage Korale Pradeshiya Sabha as at 31st December 2020, and of its financial performance for the year then ended in accordance Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the facts set out 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 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 (Responsibility of the Auditor 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 exercised professional judgment and maintain professional scepticism throughout the audit. I further:

- 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 whenever 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 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 Report on other legal requirements

The National Audit Act No.19 of 2018 contains special provisions regarding the following requirements.

- The financial statements of Pradeshiya Sabha are consistent with the preceding year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the preceding year as per the requirement mentioned in Section 6(1)(d)(iv) of the National Audit Act No.19 of 2018 are included in the financial statements submitted.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting deficiencies

Audit Observation	Comments of the Sabha	Recommendation
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(a) No action had been taken to rectify the accounting deficiencies in 1.3.1 (a) pointed out in my report on financial statements for the previous year.	Action will be taken to correct in the future.	This should be corrected in next year.
(b) The loan balance of Rs.6,455,354 to be paid to the Local Credit and Development Fund was not shown separately under current liabilities and non-current liabilities.	Action will be taken to correct by the final account 2021.	It should be accounted correctly.
(c) Provisions for 14 industries valued at Rs.2,955,372 which had not been started were mentioned as creditors.	It is informed you that those industries have already started.	Creditors should be correctly identified.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a mismatch of Rs.731,000 in between the balance of 08 accounts subject as per the financial statement and balance as per the source documents.	It is accepted that source documents were incorrect.	Source documents should be prepared correctly.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Schedules and balance confirmations related to 04 account balances amounting to Rs.5,931,905 had not been submitted for audit.	It is informed that action will be taken not to occur these kinds of shortcomings in the preparation of final accounts in 2021.	The written evidence required for financial statements should be submitted to the audit.

2. Financial Review

2.1 Financial results

According to the financial statement presented, excess of revenue over recurrent expenditure of the Council for the year ended 31st December 2020 amounted to Rs.3,750,628, as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 2,875,212.

2.2 Revenue Administration

2.2.1 Performance in Revenue collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and taxes Assessment of Rs.633,794, acreage tax of Rs.121,384 and water charges of Rs.3,975,297 due at the end of the year under review had not been collected.	It is informed that action will be taken to recover arrears.	Action should be taken to recover receivables.

(b) Court fines and Stamp duty

 Courts fines of Rs. 2,152,502 and stamp duty of Rs.17,531,000 due at the end of the year under review had not been collected.

(c) Other income

 The billboard charges and three wheeler charges of were Rs. 185,509 and Rs. 386,300 respectively which was due at the end of the year under review had not been collected.

It is informed that action will be taken to recover arrears.

Action should be taken to recover receivables.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Sabha under Section 03 of the Pradeshiya Sabha Act are shown below.

3.1 Idle or underutilized Property, Plant and Equipment

Audit Observation

480 water meters worth of Rs.2,176,440 purchased during the period from 2014 to 2016 out of a loan obtained from the Local Credit and Development Fund had remained inactive without being used to provide water connections by the end of the year under review.

Comments of the Sabha

At present 14 water meters have been installed.

Recommendation

Assets should be maximally utilized.