

Ududumbara Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ududumbara Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 Provisions of the National Audit Act No.19 of 2018 and with Sub-Section 172 (1) of the Pradeshiya Sabha Act No.15 of 1987 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 Ududumbara 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 (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 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, 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.

- Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018 (Except for the observations recommendations made by me during the previous year are included in the submitted financial statements.

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) Action was not taken to estimate the value of 03 lands which the size is not measured and 05 lands of 72 perches mentioned in the Land and Building register owned by the Sabha.	Action will be taken to estimate and account the value in the future.	Correction should be done when making financial statements for the next year.
(b) Rs.442,223 cash was not capitalized which was spent as the first step for building the fence around the Hunnasgiriya crematorium.	Action will be taken to correct by the 2021 final account.	Correction should be done when making financial statements for the next year.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
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There was a difference of Rs.1,681,880 between the balances of 07 items of accounts which amounted to Rs.7,342,774 in the financial statements and the balance of source documents.	Action will be taken to correct when making accounts in the year 2021.	Correction should be done when making financial statements for the next year.

1.6.3 Contingent Liabilities

Audit Observation	Comments of the Sabha	Recommendation
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5 court cases filed by the Pradeshiya Sabha against another party relating to stalls and 6 court cases filed by 6 third parties against the Sabha was not shown in the financial statements.	Action will be taken to include the relevant information when making final account of year 2021.	All information needed for users of financial statements should be shown.

1.7 Non - compliances

1.7.1 Non – compliance with Laws, Rules, Regulations and Management Decisions

Occasions of Non – compliance to rules, regulations and management decisions are as follows.

Refer to Laws, Rules, Regulations and management decisions	Audit Observation	Comments of the Sabha	Recommendation
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(a) Section 132 of Pradeshiya Sabha Act No.15 1987	Rs.37,800 was spent even though the funds of the Sabha cannot be used to print identification card for members of the Sabha according to the Act	Identification cards were printed according to the letter heads of the letter No. CPC/CLG/1/5/3 -4 (2018) dated 13 August 2018 of Commissioner of Local Government.	Action should be taken according to terms of the Act.
(b) State of finance Circular No.1/2012 dated 05 January 2012.	Sub contracts were given for other parties by the societies after signing contracts for Rs.13,085,198 to do 10 development project.	When orally inquiring about this matter, when entering to the contract with Sabha, even though the money was there in the bank reports, payments are done after getting materials needed for project equipment and work labour in credit basis or later payment basis.	Action should be taken according to terms of the Act.

2. Financial Review

2.1 Financial Result

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.5,961,982 as compared with the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.5,263,389.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates		
(i) Only Rs.56,510 which is 27 percent of the arrears balance Rs.205,784 as at the beginning of the year under review has been collected and there was Rs.35,418 which exceeds 5 years in arrears balance of Rs.388,414 as at 31 December the year under review.	Rs.67,476 has been collected as at 20 May 2021 and actions will be taken to collect the relevant arrears by doing mobile services when the health condition becomes better.	Actions should be taken to collect the arrears income without delay.
(b) Acreage Tax		
(i) Only Rs.6,997 which is 6 percent of the arrears balance Rs.121,281 as at the beginning of the year under review has been collected and there was Rs.83,643 which exceeds 5 years in the balance of Rs.122,852 as at 31 December the year under review.	It is been informed by letters and by telephone for relevant parties to pay the arrears.	Actions should be taken to collect the arrears income without delay.
(ii) Action had not been taken to collect the tax income of Rs.119,758 receivable from 4 estates owned by the estate authority of Pradeshiya Sabha area.	It is been informed for relevant parties by letters and by telephone to pay the arrears.	Actions should be taken to collect the arrears income without delay.
(c) Other income		
(i) The arrears balance for taxi and trishaws charges was Rs.343,600 as at 31 December the year under review and, the arrears cash which should be collected by license for parking taxis was Rs.124,200.	Action will be taken to collect the arrears.	Actions should be taken to collect the arrears income without delay.

(ii) Only Rs.496,887 which is 58 percent of the arrears water charges balance Rs.841,930 as at the beginning of the year under review has been collected during the year and in the balance of Rs.813,833 as at 31 December the year under review there was a balance of Rs.186,906 which exceeds 1 to 5 years and a balance of Rs.147,895 exceeds 5 years.

Rs.240,840 has been collected as at 21 May 2021.

Actions should be taken to collect the arrears income without delay.

(d) Court Fines and Stamp Duties

 Action was not taken to collect Rs.698,495 court fines and Rs.5,985,184 stamp duties which was receivable as at 31 December the year under review from the Provincial Council Secretariat Office and other institutions.

Future actions are done to collect the balance.

Actions should be taken to collect the arrears income without delay.

3. Operating 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 under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
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(a) As at 31 December the year under review the balance of 11 receivable accounts totaled Rs.20,726,751 and, action has not been taken from that to collect a total balance of Rs.11,086,939 which exceeds a period between 1 to 5 years and a balance of Rs.1,764,033 which had exceeded 5 years.	The relevant parties have been informed to collect the arrears.	Actions should be taken to collect without delay.
(b) A total of Rs.9,033,538 was payable as Rs.8,361,588 for development project creditors and Rs.671,952 for other payables during the year under review.	Balance from the payable accounts as at 21 May 2021 was Rs.9,033,538 and action is been taken to pay that amount.	Actions should be taken to settle without delay.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) During the year under review only 5.5 tons of compost had been manufactured and only Rs.40,600 was earned even though Rs.3,487,828 spent in the year 2010 for compost trench and ware house, Rs.385,000 spent in the year 2019 for elevation of the roof of compost trench, Rs.1,167,606 for compost drying center and Rs.5,069,140 has spent to purchase machinery in the period of 2012 – 2017.	Due to the lack of sanitary workers it is difficult carry on the project work properly.	Plans should be made to take maximum effectiveness of the cash spent on the project.
(b) Even though the monthly rent of 19 shop stalls owned by the Sabha was estimated 22 May 2018, it was unable to collect Rs.1,656,640 due to not implementing that estimation.	Due to 05 stalls do not like to pay according to the new estimation the Sabha has gone to court and it has been informed through letters to collect the balance. It is also expected to seal the stalls.	The action should be made quick to collect the shop rent according to the new estimation.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
Backhoe loader worth Rs.17,64,179 and single vibrating loader worth Rs.7,967,144 which were handed over to the Sabha in the year 2015 and in the running condition, have not been used from the previous year.	Situation of income cannot be generated has arisen due to not having a driver for machine operator.	Assets of the Sabha should be utilized effectively.

3.4 Defects in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
(a) Rs.180,830 has been paid by bill No.19 for laying PVC pipes after cutting down of soil, eventhough cutting down of soil, laying pipes and closing has been done by labour contribution of the people in the area for Madugalla South Tunnel project.	When inquiring the relevant society said that the cash was been paid for the worker after paying the bill.	Payment should be made by the recommendation of a technical officer after estimated task and examining it.

(b) Rs.304,435 had been paid by showing to remove soil of 935.85 cubic meters from the No.02 item of the estimation for the development of Diglla wewa and from the physical examination soil has not removed down from bottom of the sluice.

As shown by the audit the measurements were again examined and there was an error in measurement notes.

Payment should be made by the recommendation of a technical officer after measuring the estimated task and examining it.