

Udawalatha Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Udawalatha 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, 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 Udawalatha 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 Shabha	Recommendation
<ol style="list-style-type: none"> The value of 03 buildings and a Land had been understated by Rs.5,159,800 Court fines receivables had been understated by Rs.507, 918 and stamp duties had been overstated by Rs.133, 300. 	Action will be taken to correct in the preparation of the financial statements for the year 2021.	Accounting errors should be identified and rectified.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Shabha	Recommendation
A difference of Rs.9,170,087 was observed between the balance according to the financial statements and the source documents related to 02 account subjects.	Action will be taken to correct.	Corresponding reports should be prepared correctly.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Shabha	Recommendation
Assessment reports and requestion files for 02 account subjects with a total of Rs.875,142 had not been submitted for audit.	Action will be taken to obtain new assessment values.	Assessments should be made immediately.

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 31st December 2020 amounted to Rs.29,614,164 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 34,632,431 in the preceding year.

2.2 Financial control

Audit Observation	Comments of the Shabha	Recommendation
Deposit accounts		
Financial regulation 571 had not been followed in relating to Industrial retention deposits of Rs.537,252 for the period from 2012 to 2019.	Action will be taken to credit to the Sabha Fund or make payments immediately.	Financial regulations should be followed in relating to lapsed deposits.

2.3 Revenue administration

2.3.1 Performance in Revenue Collection

Audit Observation	Comments of the Shabha	Recommendation
(a) Rates		
Assessment of Rs. 1,872,060 due at the end of the year under review had not been collected.	It is informed that due to the corona epidemic, mobile service and property bans could not be implemented.	Revenue should be collected.
(b) Water charges and Shop rent		
At the end of the year under review, Rs.2,329,387 and Rs.2,067,490 had not been collected for water charges and shop rent respectively.	Action will be taken to recover in the future	Revenue due should be recovered.
(c) Court fines and Stamp duty		
At the end of the year under review, court fines of Rs.304,283 and stamp duty of Rs.46,931,271 had not been collected.	Action will be taken to recover the arrears	Revenue due should be recovered.

(d) Other Revenue

Billboard fees of Rs.1,321,050, Three wheelers charges of Rs.488,400 and charges for 06 transmission towers due at the end of the year under review had not been charged.

Action will be taken to recover in the future.

- (e) Out of the 14 shops in the Pussellawa new shopping complex, the shop rent of Rs.9,648,000 due on the new assessment for the year 2015 had not been collected.

It is informed you that the letters have been sent to pay the arrears.

Action should be taken to recover revenue.

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 Management Inefficiencies

Audit Observation	Comments of the Shabha	Recommendation
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(a) No action had been taken to recover the industry debtors' balance of Rs.980,858 and settle the industry Creditor balance of Rs.956,810 which had been elapsed for more than 5 years.	It will be informed you that actions are being taken to collect the charges and settle the payments.	Receivables should be collected and payments should be settled
(b) 12 shops in the Doluwa shopping complex, which was completed in 2003, were not leased until 17 years after the end of the year under review.	Required action will be taken to tender soon.	Income should be generated from Sabha property.