

Udunuwara Pradeshiya Sabha - 2020

1. Financial statements

1.1 Adverse Opinion

The audit of the financial statements of the Udunuwara Pradeshiya Sabha including the financial statements for the year ended 31st December 2020 comprising the Statement of financial position 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 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, due to the importance of the matters discussed in the section of basis for the adverse opinion in my report, the financial statements do not reflect a true and fair view of the financial position of the Udunuwara 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 Adverse opinion

An adverse opinion is expressed 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 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.
- Except the observations in paragraph 1.6.1 of this report, 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
(a) No action had been taken to rectify the accounting deficiencies in 1.3.1 (a) and (b) pointed out in my report on financial statements for the previous year.	Action will be taken to correct in the future.	Accounting deficiencies should be corrected.
(b) The value of the compactor valued at Rs.6,221,373 owned by the Sabha had not been taken into account.	Action will be taken to account for the year 2021.	It should be correctly accounted for.
(c) Subsidies expenditure for the year under review was understated by Rs.147,500.	It will be corrected in the future by journal entries.	It should be correctly accounted for.
(d) An outstanding loan balance of Rs.1,688,739 of the transferred officers had been credited to the Cumulative Fund.	Action will be taken to correct in the future.	It should be correctly accounted for.
(e) 19 Outstanding Creditors' balance of Rs.4,609,375 in the year under review had not been accounted for.	Action will be taken to correct in the future.	It should be correctly accounted for.

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| (f) | It was observed that the final balance was incorrect as the audit could not accept the explanations provided for 05 journal entries relating to the value of Rs.38,464,780 used to rectify the balance of the Suspense account during the last and reviewed year. | Errors will be rectified when preparing the account for the year 2021. | Suspense accounts should be corrected. |
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1.6.2 Unreconciled Control Accounts or Records

Audit observation -----	Comments of the Sabha -----	Recommendation -----
There was a mismatch of Rs.2,300,047 between the balance as per the Accounts and balance as per the Schedules in respect of 07 account balances.	The assessment balance will be corrected on the instructions of the Commissioner of Local Government and other schedules will also be corrected.	Schedules should be prepared correctly.

1.6.3 Documentary Evidences not made available for Audit

Audit observation -----	Comments of the Sabha -----	Recommendation -----
Assets Registry, Valuation Reports and Schedules pertaining to 02 account subjects amounting to Rs.4,650,856 had not been submitted for audit.	Documents that are brought forward before the year 2018, and action will be taken to correct.	Evidences required for the audit should be provided.

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 in contrast the excess of recurrent expenditure over revenue amounted to Rs.8,766,539 in the preceding year. This was due to decrease in recurrent expenses and increase in service charge revenue.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit observation	Comments of the Sabha	Recommendation
(a) Rates		
<p>Due to the Disclosure of financial irregularities in the collection of assessment revenue during the period from 2011 to 2015; According to the Revenue Inspectors, facts related to this financial irregularity are still being revealed in the field and an assessment balance of Rs.1,028,451 through preliminary and final inspections had been presented as the Assessment Fraud Account to be recovered at the end of the year under review; and the non-settlement of this balance last year, the audit could not be satisfied with the accuracy of the outstanding assessment balance of Rs. 28,298,081 stated in the financial statements at the end of the year under review.</p>	<p>Actions are being taken to rectify.</p>	<p>Action should be taken to rectify.</p>
(b) Court fines and Stamp duty		
<p>Court fines of Rs. 25,357,540 and stamp duties of Rs. 31,824,458 due by 31st December 2020 from the Chief Secretary and other authorities of the Provincial Council had not been collected.</p>	<p>Action will be taken to collect in the future.</p>	<p>Income receivables should be recovered.</p>
(c) Shop rent		
<p>i. Although, three leaseholders who leased the stalls had sub-leased them, the agreements had been signed again to lease out 03 stalls in the new shopping complex.</p>	<p>An opportunity will not be given to such person in renting out the stalls.</p>	<p>A correct procedure should be followed in renting out the stalls.</p>
<p>ii. The arrears rent of Rs. 99,650 had not been collected and new valuation had not been taken after 2014 for the stall that runs the pottery shop near the Gelioya bus stand.</p>	<p>There was a problem and action will be taken to resolve it and recover the arrears.</p>	<p>Action should be taken to recover the arrears.</p>

2.3 Surcharge

Audit observation

During the year under review, two surcharges amounting to Rs.1,160,960 were imposed on those responsible under the provisions of the Pradeshiya Sabha Act. An amount of Rs.1,085,285 as on 31st December 2020 with the surcharges imposed in previous years had not been recovered.

Comments of the Sabha

It is informed that letters have been sent to the relevant parties for recovery.

Recommendation

Surcharge should be recovered.

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

While, A total of Rs.11,177,694 in Rates and arrears shop rent that elapsed a period of 05 years had not been collected and Industrial and General Supply Creditors' balances for a period of 01 to 05 years amounting to Rs.6,968,123 had not been settled.

Comments of the Sabha

Relevant parties have been informed and it is informed that action will be taken to sue and collect charges and settle payments in the future.

Recommendation

Receivables should be collected and payments should be settled