

## **Pannala Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of financial statements of the Pannala Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, statement of changes in net assets, cash flow statement for the year then ended and a summary of 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 Subsection 172(1) of the Pradeshiya Sabhas 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Pannala Pradeshiya Sabha as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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**

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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 Sub-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 to be prepared of the Sabha.

#### 1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

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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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 and Regulatory Requirements

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National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements presented by the Pradeshiya Sabha are consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Sabha	Recommendation
(a) Although the value of the stamp fees to be allocated for the preceding year was Rs. 97,014,979, it had been brought to account as Rs. 91,585,143 and as a result, Accumulated Fund had been understated by Rs.5,429,836.	It is informed that the relevant error will be corrected through the financial statements of the year 2021.	Necessary corrections should be made.
(b) Although the industrial retention money for the year 2019 was Rs.2,759,265 it had been stated as Rs.14,084 in the financial statements.	It is informed that the relevant error will be corrected through the financial statements of the year 2021.	Necessary corrections should be made.

### 1.6.2 Non-reconciled Control Accounts or Reports

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Audit Observation	Comment of the Sabha	Recommendation
A difference of Rs. 11,057,061 was observed between the value as per the financial statements and the value as per the schedules relating to 19 items of account and action had not been taken to rectify the accounts by reconciling differences of relevant balances.	It is informed that action will be taken to appoint a committee to look into the long standing balances and send them to the Local Government Department for writing off through the journal entries.	Accounts should be corrected by reconciling the differences of relevant balances.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 108,424,211 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 91,103,433.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in Collecting Revenue

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<u>Audit Observation</u>	<u>Comment of the Sabha</u>	<u>Recommendation</u>
<p>(a) <b><u>Rates and Taxes</u></b></p> <p>The total Rates in arrears as at 31 December 2020 was Rs.2,856,277.</p>	<p>Measures have been taken to recover the arrears from the outstanding Rates of the Makandura sub office as at 31 December 2020 by conducting 03 property prohibition programs and 04 arrears revenue programs by 30 April 2021.</p>	<p>Arrears of revenue should be recovered expeditiously.</p>
<p>(b) <b><u>Other Revenue</u></b></p> <p>Out of 326 trade stalls owned by the Sabha, only 317 trade stalls had been leased and the outstanding balance as at 30 April 2021 was Rs.105,980.</p>	<p>It is informed that action will be taken to recover the arrears.</p>	<p>Arrears of revenue should be recovered expeditiously.</p>