

Polpithigama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Polpithigama 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 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 Polpithigama Pradeshiya Sabha as at 31 December 2020, and 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 based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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)

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 skepticism 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 the Sabha' 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 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 Requirements

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

- 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.
- 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 relating to the Preparation of Financial Statements.

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Nine motor vehicles valued at Rs. 6,022,390 had been brought to accounts without being taken over as at 31 December of the year under review.	Will be taken over after preparing the transfer documents of vehicles.	The motor vehicles should be taken over and brought to accounts.
(b) A sum of Rs. 69,999 had been understated with respect to the library in Moragollagama whereas a sum of Rs.2,840,828 incurred in the preceding years on the development of buildings of the Sabha had not been capitalized during the year under review.	Balances were prepared by adding the values of 04 buildings after improvement.	Expenses incurred on the development of buildings should be capitalized.
(c) A cash flow statement had not been presented together with the financial statements.	Action will be taken in due course to furnish cash flow statement with the account.	The cash flow statement should be presented with the accounts.

1.7 Non-compliances

Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following instances of non-compliances with Laws, Rules, Regulations, and Management Decisions, were observed.

	Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Sabha	Recommendation
a)	Financial Regulation 571 (2) of the Democratic Socialist Republic of Sri Lanka.	Action had not been taken in accordance with the relevant Regulation on 38 deposits worth Rs.1,040,480 lapsed over 02 years .	It is informed that action will be taken for the deposits lapsed over 02 years to be credited to the revenue.	Action should be taken in terms of the Financial Regulations on the lapsed deposits.
b)	Circular, No. PL/7/1/18/1(General) of the Secretary to the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, dated March 2020.	In the aftermath of Corona pandemic, instructions had been given that an advance should be obtained from the fund of the Local Authorities thereby distributing goods among the people of the locality, and the advances should be settled thereafter. Contrary to that, dry rations had been given for free by incurring a sum of 1,382,000	It is informed that expenses had been incurred from the Sabha Fund in accordance with Section 132 (f) of the of the Pradeshiya Sabhas Act, No. 15 of 1987.	The relevant institutions had been apprised of providing relief for the people during the Corona pandemic. Action should be taken in accordance with those Circulars.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 945,831 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 5,656,231.

2.2 Surcharges

Audit Observation	Comment of the Sabha	Recommendation
A sum of Rs. 1,283,910 remained recoverable as at 31 December 2020 as surcharges imposed by me during the preceding years on the parties responsible in accordance with provisions of the Pradeshiya Sabhas Act.	The certificates of surcharges had been issued to the former Chairman. The sum has not yet been paid, and his whereabouts can not be found.	Action should be taken to recover the monies relating to the surcharge certificates.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas Act , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
The value of balances receivable as at 31 December of the year under review totaled Rs.162,592,751. According to the age analysis thereon, the total of the account balances relating to a period of 1-5 years amounted to Rs. 162,562,751 whereas account balances totaling Rs. 30,000 had continued to exist over 05 years.	It is informed that action will be taken for the recovery of those balances.	Action should be taken to recover the receivable balances.