

## **Ridigama 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 Ridigama 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, 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 Ridigama 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**

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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 (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**

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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

## 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 skepticism 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 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) A sum of Rs. 11,308,890 incurred during the year under review for the development of lands and buildings owned by the Sabha had not been capitalized.	It is informed that action will be taken to correct the error.	Expenditure incurred on the development of lands and buildings should be capitalized.
(b) Value of 03 lands owned by the Sabha as at 31 December of the year under review had not been assessed and stated in the financial statements.	It is informed that action will be taken to correct the error.	Action should be taken to identify and account for the lands owned by the Sabha.
(c) Outstanding stamp fees of Rs. 3,422,971 had been written off without approval and understated in the Accumulated Fund.	Observation is agreed upon.	Approval should be obtained to write off the stamp fees.
(d) Four asset and liability items worth Rs.2,560,428 had not been stated in the financial statements.	It is informed that action will be taken to correct the error.	Assets and liabilities should be properly accounted for.

## 1.6.2 Non-reconciled Control Accounts or Reports

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Audit Observation	Comments of the Sabha	Recommendation
A difference of Rs. 2,898,463 was observed between the value as per the financial statements and the value as per the corresponding reports relating to 03 items of account and action had not been taken to rectify the accounts by reconciling differences of relevant balances.	Action will be taken to correct the shortcomings pointed out by the Audit.	Action should be taken to reconcile and correct the differences in relevant balances.

## 1.6.3 Lack of Documentary Evidence for Audit

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Audit Observation	Comment of the Sabha	Recommendation
Details required for the Audit relating to 05 items of account totaling Rs.8,014,999 had not been furnished.	Schedules will be presented to the Audit and the shortcomings pointed out by the Audit are acknowledged.	Evidence in support of the balances shown in the financial statements should be furnished.

## 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. 13,117,239 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 13,323,623.

## 3. Operating Review

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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 total value of expenditure creditors, stamp fees, pension and deposit balances payable as at 31 December of the year under review was Rs. 205,731,794. According to the age analysis thereon, the account balances relating to the period from 01 to 05 years totalled Rs.12,955,100 and the account balances relating to the period exceeding 05 years totalled Rs. 1,710,993.	It is informed that action will be taken to settle the balance on confirmation of the payable balances.	Action should be taken to settle the balances payable.