

Lankapura Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lankapura Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of assets and liabilities as at 31 December 2020, Comprehensive Income Statement, Statement of changes in equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Lankapura Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described 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 Sri Lanka Public Sector Accounting Standards for Local Authorities, 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 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 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 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- As the Financial Statements have been submitted in accordance with the new Accounting System as per Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31 December 2019, it cannot be compared with the previous year in terms of Sub-section 6 (i) d (iii) of the National Audit Act No. 19 of 2018.
- Recommendations made by me during the last year as per the requirement mentioned in Section 06 (i) d (iv) of the 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) According to the vehicle rental register the billed income for the year was Rs.1,436,150, but the billed income had been understated by Rs.592,245 as the billed income for the year had been identified as Rs.843,905.	Accepted. Relevant adjustments were made in the current year.	The value must be accurately identified and accounted for.
(b) Value of fixed assets established out of Rs. 15,709,191 received as capital grant during the year under review and the value of the capital grant reserve had not been identified and accounted for.	Action had been taken in accordance with Rules No. 194 to 197 of the Financial Administration of the Pradeshiya Sabhas in Extraordinary Gazette No. 2182/39 and unidentified Capital Expenditure / Grant of Excess / Deficit in Net Assets is determined that the assets are proportional to the depreciation percentage.	Should be accounted for in accordance with the standards.
(c) The deposit of Rs.40,000 which was charged through two receipts was later set-off from the income but the value of the deposit was overstated by Rs. 40,000 as it was not removed from the deposit list.	It is stated that adjustments will be made in the current year.	Set-off values should be removed from the deposit register.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.1,637,621 between the value according to the financial statements and the value according to the documents / schedules relating to 04 accounting subjects.	This difference is due to non-adjustment of cross notes and non-updating of documents.	The correct value should be identified and accounted for and the documents should be updated and submitted.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
The information required for the audit had not been submitted in relation to 01 account subject amounted to Rs. 432,575.	It has been stated that the documents will be updated from the year 2021.	Evidence confirming the account balance should be submitted.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2020 amounted to Rs.13,751,417 the excess of recurrent expenditure over revenue in the preceding year amounted to Rs.1,594,162.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Other Income		
(i). A sum of Rs. 491,394 was in arrear for the water charges due to failure to take proper action to recover water charges.	It has been stated that action will be taken to recover the outstanding water charges.	Action should be taken to recover the outstanding water charges.
(ii). Outstanding other income of Rs.3,973,308 as at 31 December 2020, had been removed from the accounts without formal approval since it has not been confirmed as a receivable balance due to the Sabha and stating that is a balance without information for a long time.	This balance has been removed as it has not been confirmed as a balance due to the Sabha and as a balance that has no information for a long time.	Cannot be write-off without approval.

(b) **Stamp Duty**

Stamp duty revenue of Rs.3,813,028 due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2020 had not been collected by 20 December 2021. It is stated that it will be obtained for project activities in a timely manner. Revenue should be collected as scheduled.

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 Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Human Resource Management

Audit Observation

An Acting Officer was appointed from 18 July 2018 for the post of Secretary who directly contributes to the activities of the Pradeshiya Sabha and for that an Acting Allowance of Rs. 187,730 was paid during the year under review.

Comments of the Sabha

Accepted.

Recommendation

Action should be taken to fill the vacancies.