

Ella Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Ella Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations for the year ending on that date, Cash Flow Statement and 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 which should be read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to the parliament are appeared 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 Ella Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

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 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing 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 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 Requirements

Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- (a) In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Ella Pradeshiya Sabha are consistent with the preceding year.
- (b) In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) As pre- paid insurance premiums amounting to Rs. 134, 932 of the previous year had been stated as a receivable balance of the year under review, current assets had been overstated and expenditure of the year under review had been understated by that amount.	It has been mentioned that It would be rectified in the preparation of financial statements for the year 2021.	Accounts should be correctly prepared.
(b) Although the increase of the fixed assets has been Rs. 5,066,399 in the year under review, Revenue contribution to the capital account had been credited Rs. 4,487,386 and as a result of that balance of that account has been understated by Rs. 579,013.	It has been mentioned that It would be rectified in the preparation of financial statements for the year 2021.	Accounts should be correctly prepared.
(c) Rs. 1,680,750 which had been received under Local Development Support Project in the previous year had not been stated in the financial statements of the sabha.		

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There has been a difference amounting to Rs. 3,435,929 as the value of 05 account items had been Rs. 14,841,489 according to the financial statements and Rs. 11,405,560 according to the corresponding reports.	It has been mentioned that reasons for the difference of balances between financial statements and the corresponding reports would be checked and rectified.	Corresponding reports should be correctly updated, and the reasons for the differences should be identified and corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Required documents regarding to an account item amounting to Rs. 306,693,569 had not been submitted for the audit.	It has been mentioned that documentary evidence would be submitted in the submission of financial statements for the year 2021.	Title deeds, plans and valuation reports should be submitted.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions are as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
<u>Public Administration Circular</u>			
Circular 30/2008 dated 31 December 2008	The amount of maximum distress loan entitled to an officer should be limited to consolidated salary of ten months drawn by the officer or a sum of Rs. 250,000, whichever is less, but distress loans had been paid to 07 officers of the sabha without complying	It has been mentioned that distress loans had been granted for a maximum of 10 month of basic salary ignoring circulars because sabha could earned an extra	Distress loans should be granted in accordance with circular guidelines.

it and Rs. 258,384 had interest income been overpaid according granting loans. with annual interest rate of 4.2 percent for above distress loan amounting to Rs. 2,008,384.

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 under review had been Rs. 14,932, 848 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 6,560, 686 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the sabha are given below.

Audit Observation	Comments of the council	Recommendation
(a) Rates in arrears that had elapsed more than 05 years amounting to Rs. 10,025,225 had not been recovered in the year under review.	It has been mentioned that a committee had been appointed to recover the Rates in arrears and would be recovered promptly.	Rates in arrears should be recovered according to committee decision.
(b) Water charges in arrears that had elapsed more than 03 years amounting to Rs. 2,819,262 had not been recovered in the year under review.	It has been mentioned that a committee had been appointed to recover the water charges in arrears and would be recovered promptly.	Water charges in arrears should be recovered according to committee decision.
(c) Arrears of weekly fair charges that had elapsed more than 03 years amounting to Rs. 608,740 had not been recovered in the year under review.	It has been mentioned that a committee had been appointed to recover arrears of weekly fair charges and would be recovered promptly.	Arrears of weekly fair charges should be recovered according to committee decision.