

Haldummulla Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Haldummulla 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 Haldummulla 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 Haldummulla 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 -----
(a) Although the fixed deposit interest receivable as at 31 December of the year under review has been Rs. 596,758, it had been stated as Rs. 760,889 in the financial statements. And as a result of this, revenue of the year and current assets had been overstated by Rs. 164,131 each.	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) As payments for the constructions of the year under review amounting to Rs. 1,261,918 had been accounted for as capital expenditure and construction deposit payables in two times, excess has been understated and current liabilities has been overstated 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.
(c) Rs. 1,600,000, which had been received under the Local Development Support Project (LDSP) in the preceding year, had not been stated in the financial statements.	It has been mentioned that It would be rectified in the preparation of financial statements for the year 2021.	Accounts should be correctly prepared.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation -----	Comments of the Council -----	Recommendation -----
Required documents regarding to 04 account items total amount of Rs.60,590,043 had not been submitted for the audit.	It has been mentioned that balances would be recognized after studying the previous year.	Evidences confirming account balances in the financial statements should be submitted.

2 Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December of the year under review amounting to Rs. 5,294,403 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 4,454,292.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Rates in arrears amounting to Rs. 347,492 that had elapsed more than a year had not been recovered in the year under review.	It has been mentioned that action would be taken to collect in the future.	Action should be taken to collect arrears of rates.
(b) Arrears of land rents, water charges and shop rents amounting to Rs. 2,167,129 that had elapsed more than 02 years had not been recovered in the year under review.	It has been mentioned that action would be taken to collect in the future.	Action should be taken to collect arrears of revenue.

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

3.1 Operational Inefficiencies

Audit Observation

Arrears of shop rents amounting to Rs.484,471 elapsed more than 05 years from 15 shops belonging to the council had not been collected. As the council had not entered into agreements with the tenants for 11 shops out of those 15 shops, possibility of collecting the rents had been lost.

Comments of the Council

It has been mentioned that it would be focused on subleasing, and actions would be taken to rent these shops with legal agreements.

Recommendation

The council should enter into agreements with the tenants and actions should be taken to collect the rents.