

## **Welimada 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 the financial statements of Welimada 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 Welimada 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**

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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**

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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 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)**

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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 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.

- In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Welimada Pradeshiya Sabha are consistent with the preceding year.
- 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)	Rs. 2,520,000 ,which had been received under Local Development Support Project (LDSP) in the previous year, had not been stated in the financial statements of the council.	It has been mentioned that It would be rectified in the preparation of financial statements of the year 2021.	Accounts should be correctly prepared.
(b)	Stamp fees amounting to Rs. 8,907,240 ,which should be received for the year under review, had not been accounted for as revenue of the year and as the current assets.	It has been mentioned that It would be rectified in the preparation of financial statements of the year 2021.	Accounts should be correctly prepared.
(c)	Court fines amounting to Rs. 1,901,200 ,which should be received for the year under review, had not been accounted for as revenue of the year and as the current assets.	It has been mentioned that It would be rectified in the preparation of financial statements of the year 2021.	Accounts should be correctly prepared.

## 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.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendatio n</b>
----- Section 3 of Public Finance Circular No: 05/2019 dated 27 June 2019	----- Outstanding staff loans amounting to Rs. 278,043 due from 16 officers from 2005 onwards had not been recovered although outstanding loans should be recovered from the guarantors.	----- It has been mentioned that action would be taken after examining staff loans further.	----- Outstanding staff loans should be recovered.

## 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. 29,633,236 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 48,516,115 ,and a decline of Rs. 18,882,879in the financial result has been observed.

### 2.2 Revenue Administration

#### ----- 2.2.1 Performance in Revenue Collection -----

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
----- (a) Arrears of shop rents amounting to Rs. 2,196,751 that had elapsed more than 02 years had not been recovered in the year under review.	----- It has been mentioned that charging had been delayed due to Corona situation.	----- Arrears of shop rents should be collected.

(b) Arrears of water charges amounting to Rs. 1,033,536 that had elapsed more than 02 years not been recovered in the had year under review.	It has been mentioned that charging had been delayed due to Corona situation.	Arrears of water charges should be collected.
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### 2.2.2 Surcharges

Audit Observation	Comments of the Council	Recommendation
Two surcharges amounting to Rs. 764,113, which had been imposed by the Auditor General in the year 2019 in accordance with the section 172(3) of the Pradeshiya Sabha Act No. 15 of 1987, had not been collected.	It has been mentioned that relevant parties had been reminded and action would be taken in the future.	Surcharges should be collected.