

Siyabalanduwa Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Siyabalanduwa 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, Statement of changes in net assets, Cash Flow Statement and significant accounting policies and other explanatory information for the year then ended 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 Sub-Section 172(1) of the Pradeshiya Sabha 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 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 Siyabalanduwa Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for qualified Opinion

My opinion is qualified based on the facts set out 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 principle, 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 scepticism throughout the audit. I further:

- 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 whenever 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

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

- (a) The financial statements of Pradeshiya Sabha are consistent with the preceding year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the preceding year as per the requirement mentioned in Section 6(1)(d)(iv) of the National 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) During the year under review, The pre-school and children's park of the Pradeshiya Sabha had been developed at a cost of Rs.1,749,691 but the relevant expenditure had not been capitalized and stated in the financial statements. | It has been informed that the officer in charge of the subject has been instructed to make corrections while preparing the accounts in the year 2021. | Accounts should be prepared correctly. |
| (b) The value of 05 community halls belonging to the Pradeshiya Sabha had not been assessed or accounted for. | The value of community halls is being assessed and it has been informed that those values will be included in the financial statements by 2021. | Accurate assessment should be done and accounts should be prepared correctly. |
| (b) General storage expenditure for the year under review was Rs.647,785 but it was understated as Rs.135,288 by Rs.512,497 in the financial statements. | It has been informed that the officer in charge of the subject has been instructed to make corrections while preparing the accounts in the year 2021. | Accounts should be prepared correctly. |
| (d) Long term non-performing Employee loan balances amounting to Rs.34,289 pertaining to 5 employees had not been shown under Employee loans in arrears as of 31 December of the year under review. | It has been informed that the officer in charge of the subject has been instructed to make corrections while preparing the accounts in the year 2021. | Accounts should be prepared correctly. |

1.6.2 Documentary Evidences not made available for Audit

| Audit Observation | Comments of the Sabha | Recommendation |
|--|--|--|
| Professional Assessors' reports and the updated Public Deposits Register in relating to Land and Buildings of Rs.172,803,500 and public deposits of Rs.5,301,665 were not submitted for audit. | It has been informed that the officer in charge of the subject has been instructed to obtain the proper valuation reports in future and to include the value of lands and buildings in the fixed asset register. | Evidence confirming the account balance shown in the financial statements should be submitted. |

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 ended 31 December 2020 amounted to Rs.7,386,255 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 5,347,178 in the preceding year

2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha.

| Audit Observation | Comments of the Sabha | Recommendation |
|---|---|--|
| (a) Out of the 31 shops owned by the Sabha, the shop rent of Rs.67,150 due for the year under review is had not been recovered and Rs.38,250 had not been recovered from the 05 old stalls that had been demolished. | Relevant officials have been informed to recover the arrears. | Shop rent in arrears should be collected. |
| (c) 55 environmental protection licenses issued by the council had expired but no action had been taken to renew those licenses, hence The Pradeshiya Sabha fund had lost a total of Rs.220,000 in revenue from Rs.4,000 per license. | It has been informed that a list of all industries will be prepared and field inspections will be carried out and licenses will be renewed. | Action should be taken to renew environmental protection licenses. |

| | | | |
|-----|---|--|--|
| (c) | Machine rental income of Rs.245,500 which had been carried forward for more than one year had not been recovered. | It has been informed that action will be taken to recover the arrears. | Machine rental income in arrears should be recovered. |
| (d) | Court fines of Rs.17,416 and stamp duty of Rs.1,055,078 due from the Uva Provincial Council as at 31 December of the year under review is had not been collected. | It had been informed that Officials have been instructed to recover the arrears. | Court fines and Stamp duties in arrears should be recovered. |

2.3 Surcharge

Audit Observation

An amount of Rs. 80,008 in respect of the surcharges imposed by me during the previous years against those responsible under the provisions of the Pradeshiya Sabha Act, had to be recovered.

Comments of the Sabha

It has been informed that the arrears are being collected.

Recommendation

Arrears surcharges should be recovered.