

Ayagama Pradeshiya Sabha - 2020

1. Financial Statements.

1.1. Qualified Opinion

The Audit of the financial statements of the Ayagama Pradeshiya Sabha for the year ended 31st December 2020 comprising the statement of financial position as at 31st December 2020 and the statement of financial operations for the year then ended including a summary of 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 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 published in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1. 6 of the report, the accompanying financial statements give a true and fair view of the financial position of the Ayagama Pradeshiya Sabha as at 31st 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 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 the 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 as management determine is necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

Those charged with governance, are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Sub-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 periodic financial statements to be prepared.

1.4. Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and asses the risks of material misstatements in financial statements whether due to fraud or error in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design audit procedure that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the 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 discourses, 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 compiled with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha.
- Whether the Pradeshiya Sabha 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

National Audit Act No. 19 of 2018 includes specific provisions for the following requirements.

- The financial statements of The Pradeshiya Sabha are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements.

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Three Development Projects amounting to Rs.1,966,209 carried out during the year under review and the fixed assets amounting to Rs.349,800 purchased during the year under review had not been capitalized.	It has been informed that action will be taken to rectify in preparing final accounts in the year 2021.	The relevant assets should be capitalized.
(b) Even though, the capital revenue relating to the year under review amounted to Rs.22,977,117, it was brought to account as Rs.16,541,898. As such the capital revenue for the year had been under stated by Rs. 6,435,219 and the deficit had been overstated by similar amount.	It has been informed that action will be taken to rectify the accounts under stating of capital revenue relating to the year by Rs.6,435,219 through accumulated fund and to rectify the profit.	The revenue and expenditure relating to the year should be brought to account correctly
(c) The provisions for creditors relating to the year under review had been over stated in the accounts by Rs.235,000 and as such operating expenditure and the deficit of the year had been over stated by similar amount.	It has been informed that, action will be taken to rectify in preparing final accounts of the year 2021.	The revenue and expenditure relating to the year should be brought to account correctly.

- (d) A sum of Rs.494,312 deducted from stamp fees to settle the advances received from the Chief Ministry of the Provincial Council had not been brought to account and as such the balance of the arrears of stamp fees account and the balance of the advance account of the Chief Ministry had been over stated by similar amount. It has been informed that, Assets and liabilities action will be taken to should be brought to rectify in preparing the final account correctly. accounts of the year 2021.
- (e) A sum of Rs.1,900,000 should be credited to the arrears of stamp fees account in rectifying the accounting error pointed out under paragraph 1.2(b) of the Report of the Auditor General of the preceding year. Nevertheless, that amount had been credited to the accumulated fund account and as such the balance of the stamp fees arrears account and the balance of the accumulated fund account had been over stated by similar amount. It has been informed that, Action should be taken to rectify through arrears of stamp fees account. rectify in preparing final accounts of the year 2021.
- (f) The provisions for creditors had been made in the year under review too, for the retention money relating to 05 development projects carried out in the prior years and as such the operating expenditure and the deficit of the year had been over stated by Rs. 689,434. It has been informed that, The revenue and expenditure relating to the year should be brought to account correctly. rectify in preparing final accounts of the year 2021.

1.6.2 Lack of written evidence for Audit.

Subject	Comments of the Sabha	Recommendation
The required information relating to 07 items of accounts totalling Rs. 110,289,521 had not been furnished to audit.	It has been informed that, action will be taken to rectify the account balances in preparing accounts of the year 2021.	The age analysis and the evidence to confirm the values of the assets, liabilities shown in the financial statements and the balances of ledger accounts should be made available.

2. Financial Review

2.1 Financial Results.

According to the financial statements presented, the excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December 2020 amounted to Rs. 1,466,943 as compared with the excess of expenditure over recurrent revenue of the preceding year amounting to Rs.1,972,118.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue.

<u>Audit Observation</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) Rates and Taxes		
(i) Action had not been to recover the balance of the arrears of acreage tax amounting to Rs.186,953 as at the end of the year under review, due to non-recovery of taxes periodically.	It has been informed that, due to Corona epidemic situation the land owners did not come to the Sabha, therefore receiving of revenue had decreased.	Prompt action should be taken to recover the revenue receivable to the Sabha.
(ii) Action had not been taken to recover water tax amounting to Rs.276,754 receivable as at 31 December of the year under review.	It has been informed that, recovery of due charges was delayed due to Corona epidemic situation prevailed and respective persons had been informed by letters for recovery of arrears.	Prompt action should be taken to recover the revenue receivable to the Sabha.
(b) lease Rent		
Action had not been taken to recover the key money receivable from 16 trade stalls of the Ayagama weekly fair, which has total 2077 square feet and from trade stalls of the agri crop sales center amounting to Rs. 716,000 and Rs.1,460,000 respectively even by 31 December of the year under review.	It has been informed that, above money could not be recovered due to spreading of Corona disease from March 2020 and action will be taken promptly to recover that money.	Prompt action should be taken to recover the revenue receivable to the Sabha

3. Operating Review.

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Operating inefficiencies.

Audit Observation

The trade stall of 1743 square feet of upper floor of the Aygama bus stand had been given on lease for a monthly rental of Rs. 19,050 to maintain the Ayagama Police Station on 01 July 2017 and the period of the lease agreement was ended on 30 June 2020. But action had not been taken to renew the agreement for the next period of one year and the arrears of rent amounting to Rs.95,700 for the period from July to December 2020 had not been recovered even by April 2021.

Comments of the Sabha

It has been informed that the approval had been requested from the Ministry of Defence and action will be taken to pay arrears as soon as the approval is obtained

Recommendation

The revenue receivable to the Sabha should be recovered without a delay.

4. Accountability and Good Governance.

4.1 Environmental Problems.

Audit Observation

A cost of Rs. 852,122, and 06 employees of the cadre and 02 vehicles , machinery and equipment had been deployed to dispose 324 metric tons of solid waste in the authoritative area of the Sabha during the year under review Nevertheless, disposing of those waste had been done by excavating pits in the land and waste disposed into them and closed the pits without following an environmental friendly methodology and therefore many environmental problems were emerged.

Comments of the Sabha

It has been informed that, action is being taken already by Pradeshiya Sabha to purchase a land to dispose waste, as soon as that work is completed proper waste management plan will be designed and implemented.

Recommendation

Proper Waste Management Plan should be designed and implemented