

## **Embilipitiya 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 the Embilipitiya Pradeshiya Sabha for the year ended 31<sup>st</sup> December 2020 comprising the statement of financial position as at 31<sup>st</sup> 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 this report, the accompanying financial statements give a true and fair view of the financial position of the Embilipitiya Pradeshiya Sabha as at 31<sup>st</sup> 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**

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My opinion is qualified based on the matter 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.**

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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 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)

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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 skepticism 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 procedures 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 complied 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) The expenditure incurred for development projects during the year under review totaling Rs.8,516,830 had not been capitalized.	It has been informed, that action will be taken to rectify in the following year of accounts.	The cost of the development of projects should be capitalized.
(b) In the settlement of the bills of a work during the year under review amounting to Rs. 1,995,017 for which provisions for creditors has been made in the preceding year, that amount had been posted to the expenditure ledger and as such the capital expenditure of the year and the creditors as at the end of the year had been overstated by Rs. 1,995,017	It has been informed that action will be taken to rectify in the following year of accounts.	The expenditure relating to the accounting year should be identified correctly.
(c) As the provisions had been made for creditors for the year under review for a work contracted on 19 December 2019 and non-executed even by the end of the year under review, the capital expenditure of the year and the creditors as at the end of the year under review had been over stated by Rs. 1,040,340.	It has been informed that action will be taken to rectify in the following year of accounts.	The expenditure relating to the accounting year should be identified correctly and accounted for.

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| (d) | The recurrent expenditure of the purchases of street lamp equipment incurred during the year under review amounting to Rs. 1,357,525 had been capitalized under furniture and fixtures.  | It has been informed, that action will be taken to rectify in the following year of accounts.  | The recurrent expenditure and the capital expenditure should be correctly identified correctly and accounted for. |
| (e) | Fixed assets purchased and capitalized during the year amounting to Rs. 88,800 had been written off as recurrent expenditure in the statement of financial operations and as such the operational surplus of the year had been understated by Rs. 88,800.  | It has been informed, that action will be taken to rectify in the following year of accounts.  | The recurrent expenditure and the capital expenditure should be correctly identified in and accounted for         |
| (f) | The receipt of the insurance compensation for the year under review had been credited to the miscellaneous deposit account without being identified as revenue. As such the operational revenue for the year had been understated by Rs. 103,500 and the current liabilities as at the end of the year had been overstated by similar amount.  | It has been informed, that action was taken to consider this amount as a deposit until bill payments are made for the repairs of the vehicle relating to the insurance compensation. | The revenue relating to the accounting year should be identified correctly and accounted for.                     |
| (g) | The drug stock received under Provincial provision in the year 2019 costing Rs. 337,534 had been posted to the ledger as Rs. 737,534 and as that posting error was not rectified, the balance of the stock in the ayurveda stores as at the end of the year, and the balance of the accumulated fund had been over stated by Rs. 400,000.  | It has been informed that action will be taken to rectify in the following year of accounts.   | The correct value of the stock should be brought to account.  |
| (h) | The stamp fees revenue relating to the year under review had been brought to account on cash basis while it was not disclosed in the financial statements.   | It has been informed that action will be taken to rectify in the following year of accounts.   | If not complying accounting policies that should be disclosed in the financial statements.                        |
| (I) | The case which filed against the Sabha due to a sum of Rs. 1,308,730 was not paid , which should be paid to a company for supplying of construction materials and not finalized even by the end of the year under review had not been disclosed in the financial statements. However, the legal fees amounting to Rs. 461,500 had been paid for this case by the end of the year 2021. | It has been informed that action will be taken to rectify in the following year of accounts.   | Liabilities as at the end of the year of accounts should be disclosed in the financial statements.                |

### 1.6.2. Unreconciled Control Accounts or Reports.

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<u>Subject</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
A difference of Rs. 11,651,579 was observed between the balances according to the financial statements as at the end of the year under review relating to 08 items of accounts and the balances according to subsidiary registers.	It has been informed that action will be taken to find the reason for this difference existed from the previous years and to rectify in the following year of accounts.	The balances shown in the financial statements should be reconciled with the respective subsidiary registers.

### 1.6.3. Lack of written Evidence for Audit.

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<u>Subject</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
The information required to audit relating to 06 items of accounts totaling Rs. 406,758,583 had not been furnished.	It has been informed that detailed schedules will be prepared in the future.	Detailed schedules and age analysis should be prepared.

## 2. Financial Review

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### 2.1 Financial Results.

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31<sup>st</sup> December 2020 amounted to Rs. 25,153,522 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 18,534,795.

### 2.2 Revenue Administration.

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#### 2.2.1 Performance in Collection of Revenue

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<u>Audit Observation</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
<u>Rates and Taxes</u> (i) Action had not been taken to recover balance of arrears of rates amounting Rs. 4,773,619 as at the end of the year under review.	It has been informed that the Provincial Council had recommended to recover the rates through General Treasury amounting to Rs. 730,247.73 receivable up to 31 <sup>st</sup> December 2017 from the Emibilipitiya paper industry and the restrain of	Prompt action should be taken to recover the revenue receivable to the Sabha.

properties had not been carried out to recover these arrears due to COVID 19 epidemic situation prevailed in the year 2020 and those activities will be carried out in the year 2021.

- (ii) Action had not been taken to recover the water tax amounting to Rs. 879,003 receivable as at 31<sup>st</sup> December of the year under review from 03 water projects. It has been informed that the action will be taken to recover the arrears after the reconnection of the water supply as one water project was inactive for the period of one year and action will be taken to recover arrears of water tax of other two water projects. Action should be taken to recover the revenue receivable to the Sabha.

### 3. Operating Review.

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The matters observed in respect of the activities that should be carried out by the Sabha such as regularize and control over the matters of public health, public utility services, thoroughfares and the comfort , facilities and wellbeing of the people under Section 3 of the Pradeshiya Sabha Act are given below.

#### 3.1 Operating Inefficiencies.

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<u>Audit Observation</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) In terms of by law published under No. 05 of Section iv (b) of the Extra- ordinary Gazette No. 520/7 dated 23 August 1988 of the Democratic Socialist Republic of Sri Lanka, action should be taken to remove 25 unauthorized constructions built within the limits of the Sabha. Nevertheless, a proper program to identify such unauthorized constructions and to remove them had not been executed. Further, a register for unauthorized constructions had not been maintained.	It has been informed that, the arrangements had been made to identify unauthorized constructions through revenue inspectors and technical officers and action will be taken to maintain a registry according to that.	Actions should be taken according to the provisions referred.

- (b) It was observed that, the tenderers had influenced to reduce the tender amount in leasing of 07 weekly fairs belonging to the Sabha for the year 2020 as the tenderers had not presented to contract by planning. The lost revenue by leasing the weekly fair during the year under review amounted to Rs. 1,599,000 as compared with the year 2019.
- It has been informed that the matters pointed out by audit are accepted and an over estimation had been created for the weekly fair due an intense competition for the weekly fair and due to the reasons, such as lessors had charged higher amounts from traders, the emergence of a number of small vegetable shops from the lessors and the decrease of the traders of weekly fair and the complaints were made that this amount could not be recovered
- The leasing of weekly fair should be done by implementing a proper tender procedure.