

Imbulpe Pradeshiya Sabha - 2020

1. Financial Statements.

1.1. Qualified Opinion.

The audit of the financial statements of the Imbulpe 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 this report, the accompanying financial statements give a true and fair view of the financial position of the Imbulpe 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 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.

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 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 the other Legal Requirements

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

- a) 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.
- b) The Financial statements presented includes all the recommendations made by me in the previous year except the audit matters of 1.6.1 described in the basis for qualified opinion section of my report as per the requirement of 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 -----	Recommendations -----
(a) Even though, the value of the books purchased and received as donations during the year under review had been Rs 544, 704, that value had been capitalized as Rs 3,186,731. As such the non- current assets and the balance of the revenue contribution to capital outlay account had been overstated by Rs 2,642,029.	It has been informed that it will be rectified by a journal entry.	Accounts should be rectified.
(b) The fixed assets purchased during the year valued at Rs 791,435 had not been capitalized. As such the non- current assets and the balance of the revenue contribution to capital outlay account as at the end of the year under review had been understated by similar amount.	It has been informed that it will be rectified by a journal entry.	All fixed assets purchased during the year should be capitalized.
(c) The Stamp Fees revenue relating to the year under review had been credited to the stamp fees control account and debited to the other revenue account when taking into account .As such the operating revenue and revenue debtors had been understated by Rs.920,550.	It has been informed that it will be rectified in the year 2021.	The accounts should be rectified.

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| (d) The fixed deposit Interest receivable relating to the year under review amounting to Rs. 19,178 had not been brought to account and as such the operating revenue and current assets of the year had been understated by similar amount. | It has been informed that it will be rectified in the year 2021. | The revenue relating to the year should be correctly identified and accounted for. |
| (e) The waste tax received for the ensuing year amounting to Rs 13,500 had been brought to account as arrears of waste tax. As such the current assets of the year under review had been over stated by similar amount and the current liabilities had been understated by similar amount | It has been informed that it will be rectified by a journal entry. | The respective account balances should be corrected. |
| (f) The balance of the current account No. 2247306 (environmental receipts) had been Rs. 877,683 whereas it was shown in the financial statements as Rs.862,343. As such the current assets had been understated by Rs. 15,340. | It has been informed that, action will be taken to rectify in the 2021. | The balances of the ledger accounts should be correctly included in the financial statements. |

1.6.2. Unreconciled Control Accounts or Reports

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
A difference of Rs. 11,572,014 was observed between the balances shown in the financial statements relating to 04 items of accounts and the balances shown in the subsidiary registers and the schedules thereon.	It has been informed that action will be taken to rectify the errors.	The balances shown in the financial statements should be reconciled with the subsidiary registers thereon.

1.7. Non – compliances

1.7.1 Non – compliance with Laws, Rules , Regulations, and Management Decisions.

The instances of non – compliance with laws, rules, regulations, and management decisions are given below.

Reference to Laws, Rules, Regulations etc. -----	Non – compliance -----	Comments of the Sabha -----	Recommendations -----
Financial Regulation of the Democratic Socialist Republic of Sri Lanka.	Recurrent and capital advances issued in 23 instances from the year 2010 to 2020 totaling	It has been informed that these advances were settled during the same period but the balances were due to	Action should be taken in terms of Financial Regulations.

Financial Regulation 371 (5) Rs. 8,660,593 had not been settled even by December 2020. not being recorded in the books. Therefore steps are being taken to deduct the balances from the books by following appropriate procedure.

2. Financial Review.

2.1 Financial Results.

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31st December 2020 amounted to Rs. 9,772,843 as against the excess of revenue over the recurrent expenditure of the preceding year amounting to Rs. 2,687,248.

2.2 Revenue Administration.

2.2.1. Performance in Collection of Revenue.

<u>Audit Observation</u>	<u>Comments of The Sabha</u>	<u>Recommendations</u>
(a) Rates and Taxes.		
The balance of the acreage tax remained in arrear for over a period of 05 years amounted to Rs. 116,142 but the Sabha had not taken action to settle the arrears by conducting a verification of the lands for which acreage tax is due.	It has been informed that the Department of Valuation had been informed to assess the existing quantities as problems have arisen in recovering acreage tax due to the division of lands and action will be taken in accordance with that recommendation in the future.	The acreage tax verification should be conducted and identified correctly the arrears of acreage tax.
The Sabha had not taken adequate action to recover arrears of water tax relating to the year under review and the preceding years amounting to Rs. 6,835,186.	It has been informed that the water tax arrears could not be recovered in the year 2020 as planned due to the COVID 19 epidemic. Arrangements are being made to conduct mobile services in the future to recover arrears.	Action should be taken to recover arrears of water tax.

(b) Court Fines and Stamp Fees.

The stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities relating to the period from January to April 2020 amounted to Rs.3,207,550 while the stamp fees receivable for the period from May to December 2020 had not been identified even by February 2021.

It has been informed that the stamp fees could not be recovered within the due period and action will be taken to recover respective fees in the future.

Action should be taken to identify the revenue and to recover.

3. Operating Review.

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 and 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

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
Even though , the control of unauthorized constructions was the responsibility of the Local Authorities, such constructions had not been identified and the Sabha had not taken action on 05 out of 10 public representations regarding illegal constructions from 2016 to 30 th November 2020.	It has been informed that the relevant institutions have been informed in dealing with illegally constructed buildings near streams and rivers that it is appropriate to set aside a specific area of the land for the reserve and to carry out surveys as legal issue may arise due to the fact that the streams and rivers are boundaries of the land in the documents available to confirm the ownership of the land.	The required actions should be taken to control the unauthorized constructions.

3.2. Idle or Under-utilized Property, Plant ,and Equipment.

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
The Galagama multi-purpose building which constructed and handed over to the Sabha in August 2016 by incurring a sum	A solar system had been installed at the moment in the Galagama multi-purpose building for generating revenue which constructed by the	Action should be taken to utilize the multi-purpose building effectively.

of Rs. 42,000,000 under the Puraneguma Project and action is being taken to supply electricity produced through the system to the Electricity Board.

Puraneguma project had remained idle for a period of 04 years without being utilized for the respective activities. According to the budget estimate 2020, it was planned to install a solar power system in that building but action had not been taken thereon even by December 2020.

3.3 Delays in the Execution of Projects, Activities or Capital Works.

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
<p>A sum of Rs. 4,561,397 had been incurred in the years 2015 and 2017 to develop Pambahinna weekly fair. However the development work had not been carried out as suitable to hold the fair and the Sabha had failed to achieve the relevant objectives even during the year under review.</p>	<p>It has been informed that the estimates had been sent for the approval of the Ministry of Local Government in the year 2018 and after receiving provisions action will be taken to make the weekly fair as enable to utilize by the traders.</p>	<p>The provisions should be obtained and should develop the weekly fair as suitable to utilize.</p>