

Palmadulla Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Palmadulla Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Sabhas 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 presented 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 Palmdulla 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 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

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 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 and 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 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors 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 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 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 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 following requirements.

- (a) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.

- (b) The recommendations made by me during the previous year are included in the financial statements presented 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	Comment of the Sabha	Recommendation
An amount of Rs.1,486,883 spent during the year under review to upgrade 04 buildings owned by the Sabha had not been capitalized.	Action will be taken to accurately capitalize this amount when preparing the final accounts for the year 2021.	The capital expenditures for the year should be capitalized in the relevant accounting year.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs.26,643,946 relevant for 06 items of accounts, between the balances as per the financial statements and the balances as per the corresponding reports and a difference of Rs.4,160,148 relevant for 03 ledger accounts between its balances and the corresponding balances in the trial balance.	These balances were descending over a long time therefore actions would be taken to correct the errors occurred when making the accounts in the future.	The financial statements with the corresponding registers and the values in the financial statements with the corresponding ledger accounts balances should be reconciled.

1.7 Non-compliance

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comment of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571(2)	Actions had not been taken to according to the relevant regulations on industrial deposits accumulated to Rs.2,132,358 during the time period of the year 2007 to the year 2018.	These deposits are being recognized now therefore actions would be taken according to the financial regulations No.571 within 03 months after that.	The relevant deposits should be redeemed or taken to the revenue according to the relevant financial regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.2,228,349 for the year ended on 31 December 2020 of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.885,672.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a.) Rates and Tax		
i. Action had not been taken to recover the rates in arrears of Rs.6,120,190 at the year under review and Sabha had charge the rates depending on the assessment made in the year 2010 even though the Section 20 of the Tax and Assessment Act No.30 of 1946 even though it mentioned that property should be assessed at least once 5 years, therefore Sabha had lost a receivable income because of not making a timely assessment.	The income receivable had been failed to recover due to the Corona situation and actions would be taken to recover it in the year 2021.	The revenue in arrears of the Sabha should be recovered as soon as possible.
ii. The acreage tax in arrears at the end of the year under review had been Rs.413,024.	Actions would be taken to recover in the year 2021.	Actions should be taken to collect the revenue of the Sabha regularly.
(b.) Court Fines and Stamp Duty		
Actions had not been taken to recover the Court Fines of Rs.2,492,333 as at 31 December 2020 from the Chief Secretary and the Officers of the Sabha and Stamp Fees from April to December of the year 2020 had not been recognized as at March 2020.	The corresponding reports relevant for the April to December had not been sent. Therefore, it could not be recognized.	The revenue in arrears of the Sabha should be recovered as soon as possible.

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

Commissioner of Local Authorities had been informed on 29 May 2020 to report the unauthorized constructions besides the rivers and streams because controlling the unauthorized constructions beside the rivers and stream is a responsibility of the Sabha. Accordingly 24 unauthorized constructions had been reported within the Sabha but actions had not been taken to remove those unauthorized constructions.

Comment of the Sabha

The removal of unauthorized constructions had been failed to complete due to the Corona situation therefore actions would be taken to remove those constructions in the year 2021.

Recommendation

A procedure should be implemented to recognize and remove the unauthorized constructions.