

## **Seethawaka Pradeshiya Sabha - 2020**

---

### **1. Financial Statements**

---

#### **1.1 Qualified Opinion**

---

The audit of the financial statements of the Seethawaka Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of Assets and Liabilities as at 31 December 2020 , Comprehensive Income Statement, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the 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 Seethawaka Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities

#### **1.2 Basis for Qualified Opinion**

---

My opinion is qualified 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 Sri Lanka Public Sector Accounting Standards for Local Government Authorities, 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 skepticism throughout the audit. I also:

- 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 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 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) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Noncompliance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions Authorities

<b>Non-compliance with reference to the relevant standard</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<b>Sri Lanka Public Sector Accounting Standards for Local Government Authorities</b>		
(a) According to Section 3.9 of the standard, the budgeted information in the financial statements, such as the initial budget, the final budget and any quantitative changes between them, had not been disclosed.	Although action was taken to prepare the account as per the Standards and Gazette Notification, there was not enough awareness to make all the disclosures contained therein and kindly inform the action will be taken in this regard in the future..	All real estate and equipment should be documented so that they can be identified separately according to accounting standards.
(b) According to Section 6.3 of the standard, lands and buildings are required to be disclosed separately under property, plant and equipment; however it has not been done. Also, land had not been accounted as property, plant and equipment.	All the fixed assets of the Sabha could not be disclosed due to insufficient time to provide the relevant information prior to the preparation of the account for disclosure of property, plant and equipment, and for accounting of roads, culverts and bridges under the plant and equipment.	Action should be taken to comply with accounting standards.
(c) In order to determine the useful life of an asset in terms of Section 6.14 (b) of the standard, operational factors such as care and maintenance provided by the Pradeshiya Sabha during the inactivity of the asset should be taken into consideration	The useful lifetime had not been determined as the RA 7616 tractor and SL 7792 tractor which had to be disposed and kindly inform that action will be taken accept by the financial rules in the future.	Action should be taken to comply with accounting standards.

however those factors were not taken into consideration.

- |     |  |   |   |
|-----|--|---|---|
| (d) | In accordance with Section 9.8 of the Standard Assignments , libraries and pharmaceutical assistance received from the Government had not been identified as receivables for the period.   | Actions will be keep it under the creditors and deal with the relevant assignments for the coming year as notified of the due date in advance and when receive at the end of the year there is not enough time to make the credits. | Action should be taken to comply with the accounting standards. |
| (e) | As the Section 9.9 of the Standard specifies separate components of the Government Assignment Mass which are not satisfied with the revenues in other Extended Revenues. However the statement of assets and liabilities stated that the value was Rs.18,460,134 however the manner in which the value was identified was not disclosed. | The value of Rs.18,460,134.12 is not aware of this entry. Therefore incorrectly noted and it had been corrected.  | Action should be taken to comply with the accounting standards. |
| (f) | In accordance with the Section 11.9 of the Standard had not disclosed a comparison of additions and subtractions, unused values, etc. At the beginning and end of the period with respect to provisions for random liabilities and provisions for random assets.   | Inform that will follow the instructions given by the Local Government Department regarding these revelations in the coming years.  | Should comply with accounting standards.                        |

## 1.6.2 Accounting Deficiencies

Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
(a) Instead of being accounted for capital grants of Rs.105,088,590 for the year under review, Rs.123,548,724 had been accounted.	The action will be taken to do the relevant amendments to the Comprehensive Revenue Statement and submit a copy.	Action should be taken to account correctly
(b) The total capital contribution was Rs.105,088,590 instead of Rs.10,508,859 as government assignments for non-recurring expenses in the Comprehensive Revenue Statement. As a result, an additional capital grant of Rs. 94,579,731 had been accounted.	The action will be taken to do the relevant amendments to the Comprehensive Revenue Statement and submit a copy.	

<p>(c) In behalf of Rs.94,579,731 had been accounted under the Unauthorized Capital Grant in the Statement of Assets and Liabilities for the year under review, Rs 18,460,134 had been shown in the accounts. As a result Rs. 76,119,597 had been understated in the accounts.</p>	<p>Relevant amendments had been made to the Asset and Liability Statement and the reduction was adjusted.</p>	<p>Action should be taken to account correctly.</p>
<p>(d) By the Journal 55, Work creditors in the year under review had accounted for Rs.15,632,758 as recurrent expenditure instead of work in progress.</p>	<p>The action will be taken to correct the error in the final account for the year 2021.</p>	
<p>(e) According to the Sri Lanka Public Sector Accounting Standards-2017 for Local Governments Authorities, the unidentified capital contribution value was not taken into account in the statement of equity Change of financial statements.</p>	<p>Action will be taken to correct presentation in this regard in the final account for the coming year.</p>	
<p>(f) The loan instalment amounting to Rs. 1,084,000 for the compactor had to be paid, however it had been accounted under current assets as receivables from non-exchange transactions.</p>	<p>The action will be taken to rectify the relevant deficiencies in accordance with the new accounting system in the future.</p>	
<p>(g) The assets, plants and equipment of the Council amounting to Rs. 2,352,400 had been taken understated in the account as at 31 December 2020.</p>	<p>The action will be taken to include it in the year 2021.</p>	
<p>(h) Depreciation for fixtures during the year under review was Rs.1,611,495. However, due to accounting it as Rs. 1,208,621 in the financial statement, the depreciation for the year under review was understated by Rs.402,874.</p>	<p>The action will be taken to correct by the 2021 account.</p>	
<p>(i) Although the accounting policy stated that the assets would not depreciate in the year of purchase, however the library books purchased during the year under review had been depreciated by Rs. 2,893,073 and the library books had been understated by Rs.289,307.</p>	<p>The action will be taken to correct by the 2021 account.</p>	

- |  |   |
|--|---|
| (j) The crematorium at Thunnana Public Cemetery in the Sabha area was completed in the year 2019 at a cost of Rs. 21,589,738 however it had not been accounted as the building.  | The action will be taken to include this property in the building schedule after it is taken over by the Sabha. |
| (k) Roads, culverts and bridges relating to previous years had not been accounted for under the property, plant and equipment of the year under review and instead of being accounted roads, culverts and bridges property, plant and equipment valued at Rs. 8,688,785 for the year under review they had been accounted as recurring expenses. | Kindly inform that action will be taken to rectify this in the year 2021.                                       |
| (l) The following deficiencies were observed in the Cash Flow Statement for the year ended 31 December 2020.   | There have been omissions in this regard as it is a new accounting system.                                      |
| (i) Depreciation of Rs.12,194,401 for the year under review had not been included in to the Cash Flow Statement.   | There have been omissions in this regard as it is a new accounting system.                                      |
| (ii) Purchases of property, plants and equipment during the year under review were Rs.28,151,170 however in the cash flow statement it was shown as Rs.393,663,485 negative amount and included as capital expenditure of Rs.365,512,314.  | There have been omissions in this regard as it is a new accounting system.                                      |
| (iii) Capital inflows from cash flow from financial activities included Rs. 122,000 received for service charges.  | There have been omissions in this regard as it is a new accounting system.                                      |
| (iv) Net cash flows from operational activities had not been included pre-payments and deductions amounting to Rs. 24,858,075.   | There have been omissions in this regard as it is a new accounting system.                                      |
| (v) Interest income received Rs. 6,497,248 should be included in the net cash flow statement from investment activities. However the sabha had included it in to the surplus as revenue from general operations.   | There have been omissions in this regard as it is a new accounting system.                                      |

Action should be taken to account correctly.

(vi) Although the reduction and increase of net assets and current liabilities in the net cash flow from the operations of the Cash Flow Statement should be noted separately, however it had not been disclosed separately by the Sabha.	There have been omissions in this regard as it is a new accounting system.	Action should be taken to account correctly
---	--	---

**2. Financial Review**  
-----

**2.1 Financial Result**  
-----

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs. 30,356,058 as compared with the revenue over recurrent expenditure amounted to Rs. 94,876,737 in the preceding year.

**2.2 Revenue administration**  
-----

**2.2.1 Performance of the Revenue Collection**  
-----

<b>Audit observations</b> -----	<b>Comment of the Council</b> -----	<b>Observation</b> -----
<b>Assessment and Tax</b> -----		
(a) The action had not been taken to recover the assessment tax balance of Rs. 12,548,776 due as at the end of the year under review.	Kindly inform you that due to the spread of the corona virus in the year 2020, the government did not resort to property bans to recover the arrears due to the fact that the house-to-house collection to provide relief and money had to be done in accordance with health regulations.	Action should be taken to recover the arrears of income.
(b) The action had not been taken to recover the acreage tax arrears of Rs. 67,454 by the last day of the year under review.	Kindly inform that the action have been taken to informed by letters to recover the arrears	Action should be taken to recover the arrears of income.
<b>(c) Court fine and Stamp fees</b> -----		
The action had not been taken to obtain Rs. 49,000,000 court fine and Rs. 196,125,951 stamp fees due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2020.	Court fines and stamp fees are accounted on accrual basis. Accordingly, the estimated amount received in the budget for the year received or not received is calculated by adding the amount due for the relevant year to the outstanding amount.	Urgent action should be taken to recover court fines and stamp fees.