

Agalawattta Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Agalawattta 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 , statement of changes in net assets/ equity , 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 . 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 financial statements give a true and fair view of the financial position of the Agalawattta Pradeshiya Sabha as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities .

1.2. Basis for Qualified Opinion

I express qualified opinion 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 Sri Lanka Public Sector Accounting Standards, 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 scepticism 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

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations which I made on financial statements for the preceding year are included 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non -compliance with Reference to the Relevant Standard	Comments of the Council	Recommendation
---	-------------------------	----------------

(a) In preparation of cash flow statement, the loan installment of the loan obtained from the Local Debt Development Fund during the year under review amounting to Rs.661,125 had not been taken in the cash flow statement as investment activities in terms of No.3.29 of Sri Lanka Public Sector Accounting Standards for Local Authorities.

It is informed that the actions will be taken in the year 2021 in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.

(b) Although the loan installment of Rs. 1,407,339 to be paid with regard to the year 2020 from the long term loan to be paid to the Local Debt Development Fund and to the Palindanuwara Pradeshiya Sabha amounting to Rs. 5,534,994 should be disclosed under current liabilities in accordance with No. 15.8 of Sri Lanka Public Sector Accounting Standards for Local Authorities, it had not been so indicated.

It is informed that the corrections will be made in the year 2021 .

It should be accurately accounted for.

1.6.2 Accounting Deficiencies

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) A sum of Rs. 2,575,532 due from external provisions had not been accounted for under comprehensive income as capital grants.	It is informed that the corrections will be made in the final account of the year 2021	It should be accurately accounted for.
(b) A sum of Rs. 7,840 to be paid for repairing the doors of the pre-school building had not been brought to the building account and to the Sabha contract creditors account .		
(c) The allowances to be received to the Members amounting to Rs. 315,000 during the year under review had not been accounted for as receivables.	It will be brought to accounts on accrual basis in the year 2021.	It should be accurately accounted for.
(d) Instead of Rs. 1,772,632 to be paid to the Director General of Pensions as at 31 December 2020 , a sum of Rs.1,683,544 had been accounted for as credited to the creditors.		
(e) The value of 04 road drainage system projects constructed under direct labour amounting to Rs.972,385 had not been brought to accounts under property plant and equipment.	It is informed that the corrections will be made in the final account of the year 2021 .	It should be accurately accounted for.
(f) Although the estimated value of Garbage Tailor No. 2058 was Rs. 270,000, a sum of Rs.545,000 had been overstated as Rs.815,000 in the financial statements .		
(g) The book value of Rs. 100,810,868 had been accounted for instead of the assessed value of the building during the year under review.	It is informed that the corrections will be made in future obtaining Assessment Reports.	It should be accurately accounted for.

- (h) Instead of the annual cost of 05 service agreements amounting to Rs. 14,880, a sum of Rs. 56,281 had been overstated as Rs. 71,161 in the financial statements .
- (i) The Local Government Department had provided a tractor, a trailer and a three wheeler valued at Rs. 2,388,700 to the Sabha on loan and the amount paid so far for that was Rs. 1,095,000 . Instead of Rs. 1,293,700 to be paid furthermore, a sum of Rs. 27,375 had been understated as Rs. 1,266,325 .
- (i) As a result of a road crusher valued at Rs. 3,180,000 at the beginning of the year 2020 was removed from the machinery account, the machinery account had been understated by the same amount.

It is informed that the corrections will be made in the final account of the year 2021 .

It should be accurately accounted for.

2. Financial Review

2.1 Financial Results

The expenditure exceeding the recurrent income of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs. 11,887,800 and the income exceeding the recurrent expenditure as against to that for the preceding year was Rs. 3,173,629 .

2.2 Revenue Administration

2.2.1 Performance on Revenue Collection

Audit Observation

The court fines to be received from the Chief Secretary of the Provincial Council and other authorities by 31 December 2020 was Rs. 1,850,000 .

Comments of the Sabha

Necessary steps will be taken to recover the arrears.

Recommendation

Actions should be taken to recover.