

Bandaragama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Bandaragama 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 Bandaragama 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

<p>Non -compliance with Reference to the Relevant nents of the Council Standard</p> <hr/>		
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(a) It was observed as per the following matters that the cash flow statement for the year under review had not been prepared in accordance with Paragraph 3 for the procedure for submission of cash flow statements in Sri Lanka Public Sector Accounting Standards for Local authorities 2017 .

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| <ul style="list-style-type: none"> • Although the surplus for the year was Rs.41,933,126, the surplus for the year had been overstated by Rs. 243,437,444 under cash flow from operational activities. • Cash withdrawals from fixed deposits during the year amounting to Rs. 7,096,030 had not been indicated as a cash inflow under investment activities and a new fixed deposit investment amounting to Rs. 5,000,000 had not been sated as a cash outflow under investment activities. | <p>The accurate cash flow statement will be prepared and presented in the year 2021 .</p> <p>The accurate cash flow statement will be prepared and presented in the year 2021 .</p> | <p>The surplus for the year should be accurately indicated.</p> <p>The inflows and outflows of cash should be accurately indicated under investment activities.</p> |
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- Although the value of capital expenditure grants was Rs.84,885,223 it had been understated by Rs. 14,391,280 under cash flow from financial activities. The accurate cash flow statement will be prepared and presented in the year 2021 . Capital expenditure grants should be accurately stated .
 - The value of cash and cash equivalents at the beginning of the year amounting to Rs. 11,574,523 had not been indicated in the cash flow statement. The accurate cash flow statement will be prepared and presented in the year 2021 . Cash and cash equivalents should be accurately stated.
 - Although the value of cash and cash equivalents at the end of the year was Rs. 12,040,678 it had been understated by Rs. 11,574,523 in the cash flow statement indicating as Rs. 466,155 . The accurate cash flow statement will be prepared and presented in the year 2021 . Cash and cash equivalents should be accurately stated.
- (b) The budgeted information in the prepared budgets of an entity should be presented in the financial statements for that period in accordance with Paragraph 3.7 of the Sri Lanka Public Sector Accounting Standards for Local Authorities 2017 and as per the Paragraph 3.9 of that Standard , the budgeted and actual values should be presented separately so that they can be compared separately and if there are any material differences between those values, the reasons for them should also be disclosed. Nevertheless, the budgeted and actual values had not been presented comparatively in the financial statements for the year under review. It will be submitted in preparation of financial statement of the year 2021 . Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.
- (c) When the carrying value of an asset class increases as a result of revaluation that increase should be directly credited to the revaluation surplus in terms of Paragraphs 52 and 53 of Sri Lanka Public Sector Accounting Standards for Local Authorities No. 07 and when the carrying value of an asset class decreases as a result of a revaluation that decrease should be identified in surplus or deficit. Nevertheless, the results occurred at the revaluation of fixed assets as at 01 January 2020 had been adjusted to the contribution to the capital application from income account for the without making adjustments as above. It will be corrected in preparation of financial statement of the year 2021 . Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.6.2 Accounting Deficiencies

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) Instead of adjusting the surplus of the year amounting to Rs.41,933,126 in the accumulated fund account, adjusting the comprehensive income of the year amounting to Rs.126,818,350, the accumulated fund as at 31 December 2020 had been overstated by Rs.84,885,223 .	It will be corrected in preparation of financial statement of the year 2021.	It should be accurately accounted for.
(b) As a result of the inclusion of the value of property, plant and equipment amounting to Rs.346,905,155 which does not affect the equity of the year within the statement of changes in equity, the total equity as at 31 December 2020 had been overstated by that amount.	Because new balances were identified by the asset revaluation, the fixed assets have been matched in the statement of equity changes.	
(c) Although the accumulated surplus for the year was Rs.52,253,165, a sum of Rs. 233,117,405 had been overstated as Rs. 285,370,570 within the statement of assets and liabilities.	Actions will be taken to correct in future.	
(d) The reserves and provisions balance belonging to the equity of the year amounting to Rs. 668,297 and the balance of contribution to capital from income account amounting to Rs.233,117,327 had not been stated in the statement of assets and liabilities as at 31 December 2020.	It will be corrected in preparation of financial statement of the year 2021.	
(e) Even though the fixed assets valued at Rs. 668,297 received as donations during the year under review had been adjusted to the relevant assets accounts accurately, as a result of the value of those donations being credited to a reserve and allocation account without being accounted for as income the income for the year had been understated.	It will be corrected in preparation of financial statement of the year 2021.	
(f) As a result of failure to indicate the utility service account and the provincial council loan account valued at Rs.7,980,490 and employee security deposit and employee security investment accounts valued at Rs. 193,729 within the statement of assets and liabilities the assets and liabilities of the Sabha as at 31 December 2020, had not been accurately appeared.	It will be corrected in preparation of financial statement of the year 2021.	

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| (g) | Instead of accounting for the physical stock as at 31 December 2021, the stock book balance amounting to Rs. 2,633,644 had been brought to accounts. | The Ayurvedic products were checked with the inventory and the relevant documents were signed since the stocks were identical. | The physical stock should be accounted for. |
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1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
A difference of Rs. 211,744 was observed in between the value as per the financial statements and the value as per the schedule in relation to 02 accounting items.	It will be corrected in preparation of the final account 2021 .	Action should be taken to correct the account by reconciling the changes in the relevant balances.

1.6.4 Lack of Written Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
Information pertaining to the 07 account items totalled to Rs.381,061,277 required for audit had not been submitted.	It will be corrected in the preparation of final account 2021 .	Evidences should be submitted to confirm the account balances.

2. Financial Review

2.1 Financial Results

The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs. 41,933,126 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 1,632,274 .

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
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<p>The following matters were observed during the audit carried out on the distribution of assets owned by the Sabha at that time in between the two Sabhas with the establishment of the Millaniya Pradeshiya Sabha on 11 February 2018 as a separate unit from the Bandaragama Pradeshiya Sabha.</p>		
<p>(a) Actions had not been taken by Bandaragama Pradeshiya Sabha to transfer 100 plots of land used by Millaniya Pradeshiya Sabha valued at Rs. 25,595,177 to the Millaniya Pradeshiya Sabha even by 20 July 2021 .</p>	<p>It is requested to take actions to provide the relevant schedules.</p>	<p>Actions should be taken to transfer assets.</p>
<p>(b) The Bandaragama Pradeshiya Sabha had not taken actions to formally hand over 13 buildings used by the Millaniya Pradeshiya Sabha at the time of its establishment.</p>	<p>It is requested to take actions to provide the relevant schedules.</p>	<p>Actions should be taken to transfer assets.</p>
<p>(c) Although the Assistant Commissioner of Local Government has identified the distribution of assets between Bandaragama and Millaniya Pradeshiya Sabhas on 20 September 2019 at the rate of 58 per cent and 42 per cent respectively and also 03 years and 05 months had elapsed since the establishment of the Sabha, assets had not been divided because of the disagreement at the Annual General Meeting of the Bandaragama Pradeshiya Sabha held on 28 April 2021 .</p>	<p>A Committee has been appointed because of disagreement on this point at the Annual General Meeting held on 28 April 2021 and the activities are being carried out in due course .</p>	<p>Assets should be distributed promptly.</p>

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Sabha	Recommendation
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<p>Although the financial statements pertaining to the year 2020 should be submitted on or before 28 February 2021, the financial statements of the Sabha had been submitted on 30 March 2021 with a delay .</p>	<p>Although the final account has been prepared on the due date, it was submitted in consultation with the auditor as a result of failure to distribution of assets between Millaniya and Bandaragama Pradeshiya Sabhas.</p>	<p>Financial statements should be submitted by the due date .</p>