

Beruwala Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Beruwala 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 Beruwala 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

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.

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

Audit Observation	Comments of the Sabha	Recommendation
(a) 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 .	Relevant officers were instructed to accurately record in the year 2021 .	Transactions only affect to the cash flow should be recorded.
(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.	Relevant officers were instructed to accurately record in the year 2021 .	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

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| (c) | Although an entity should disclose the accounting policies adopted for valuing stocks, including the methodology used for stocks, in accordance with Paragraph 5.14 of the Sri Lanka Public Sector Accounting Standards for Local Authorities 2017, such disclosure had not been made in the financial statements for the year under review. | Relevant officers were instructed to accurately record in the year 2021 . | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities. |
| (d) | Property, plant, and equipment are tangible assets that are manufactured or used to supply goods or services to others for lease or administrative purposes and are intended to be used for more than one reporting period in terms of Paragraph 6.1 of Sri Lanka Public Sector Accounting Standards for Local Authorities. Accordingly, although because of the library books meet the above criteria, it should be identified under property, plant and equipment , the value of library books during the year under review amounting to Rs. 4,924,431 had been accounted for as stocks. | Instructions have been given that the value of library books should be accounted for as stock according to the new accounting system. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities. |
| (e) | Although the measurement bases used to determine gross carrying values of property, plant and equipment in each class should be disclosed in terms of Paragraph 6.20 of Sri Lanka Public Sector Accounting Standards for Local Authorities, such disclosure had not been made regarding property, plant or equipment in the financial statements of the year under review. | Instructions have been given to measure the property plant and equipment in 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

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| (a) Although the unidentified capital grant value of surplus or deficit was Rs.60,008,095, because it had been mentioned in the statement of assets and liabilities as Rs.119,967,749, the equity as at 31 December 2020 had been overstated by Rs. 59,959,654 . | This error has occurred when making adjustments to the statement of assets and liabilities from the trial balance. Steps will be taken to minimize such mistakes in future. | It should be accurately accounted for. |
| (b) As a result of the omission of the balance of contract creditors amounting to Rs.59,959,654 from the financial statements, the current liability as at 31 December 2020 had been understated by that amount. | Because of a mistake has occurred relevant officers have been instructed not to do so in future. | |
| (c) As a result of the net value of corrections made in the previous year errors adjusted for the accumulated fund amounting to Rs. 4,914,565 had not been stated in the statement of changes in equity for the year, the balance in the accumulated fund account as at 31 December 2020 had been understated by the above value. | Because of an mistake has occurred relevant officers have been instructed not to do so in future. | |
| (d) Although the increase of Rs. 44,301,500 occurred in the value of land during the assessment of assets in the year 2020 should be recognized as a recurrent surplus and credit it to a recurrent reserve account, without doing so, it had been shown as recognized capital expenditure as grant in surplus deficit by capitalizing as a fixed asset purchase of the year. | The officers have been instructed to open a revaluation reserve account in future . | Revaluation should be accurately accounted for. |
| (e) Actions had not been taken to identify the cost of two yachts and a boat engine purchased in 2007 and accounted for . | This will be corrected by the final account for the year 2021. | All the assets should be accounted for. |
| (f) Although 10 water tanks amounting to Rs. 107,000 received as donations in the year 2017 should be shown under containers and equipment, it had been stated under fittings. | This will be corrected by the final account for the year 2021. | Assets should be accurately classified and shown in the accounts. |

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| (g) | Although the buildings had been assessed for the year 2020, the remained costs of all the buildings for the year 2019 owned by the Sabha had been shown as newly assessed values as at 31 December 2020 . Accordingly, actions had not been taken to conduct a formal assessment on buildings and to accurately identify new assessment values and to account for. | A formal assessment will be made and the newly assessed values will be accurately found and accounted for in the final account of the year 2021 . | A formal assessment should be made and accounted for. |
| (h) | The variations in capital reserve accounts affected for the changes in equity during the year under review had not been presented in the statement of changes in equity. | The statement of changes in equity should be prepared accurately. | It will be corrected from the final account for the year 2021 . |

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. 44,086,074 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 71,961,970 .

2.2 Revenue Administration

2.2.1 Performance on Collection of Revenue

Audit Observation

- (a) The court fines and stamp duties which should have been received from the Chief Secretary of the Provincial Council and Oher Authorities as at 31 December were Rs.36,592,795 and Rs.58,640,190 respectively.

Comments of the Sabha

The arrears have not been received

Recommendation

Actions should be taken to recover the court fines and stamp duties .

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 Procurement Management

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) When computerizing office works, although taking actions to establish after inquiring from the Western Provincial Information and Resources Authority or if it is to be done by other private institutions, the cost estimates have to be prepared and submitted to the Technical Evaluation Committee or the Procurement Committee for approval in terms of National and Training Circular 01/2011 dated 18 October 2011 of the Chief Secretary, Western Province, it had not been so done in paying Rs. 4,645,000 to a private company in the year 2018 for setting up a software system consisting of 10 devices in the Pradeshiya Sabha.</p>	<p>Cost estimates will be prepared and appropriate actions will be taken for future activities.</p>	<p>It should act in accordance with circular provisions.</p>
<p>(b) Because of more than 12 successfully implemented local government bodies had restricted to bid only for suppliers who have implemented this system in calling for bids, the fair opportunities to qualified interested parties to participate in the procurement had been deprived.</p>	<p>Arrangements will be made to purchase by giving a publicity at the national level.</p>	<p>Cost estimates should be prepared and obtained necessary approvals .</p>
<p>(c) Although a report on the successful operation of these systems in more than 12 Local Government Institutions is required to submit as per Tender Conditions Nos. 03 and 10, the Local Government Institutions had not mentioned that this system would be implemented successfully as per the reports submitted.</p>	<p>Charging from this system is successfully being done and the rest to be completed in the future.</p>	<p>Fair opportunities should be given to qualified parties.</p>
<p>(d) The total amount of Rs. 4,645,000 agreed prior to the installation of the software system along with 10 components had been paid outside the recommendation of</p>	<p>After entering into agreements, 50 per cent of the total amount, 25 per cent after computerization and the remaining ,25 per cent after</p>	<p>Arrangements should be made in terms of Tender conditions.</p>

the Technical Evaluation Committee training have been paid as Rs. 2,322,500 on 20 March 2018, Rs. 1,161,250 on 21 March 2018 and Rs. 1,161,250 on 22 March 2018 .

- (e) Out of the software systems along with 10 devices, 06 software systems which was paid Rs. 2,550,000 had not been installed even by now. Ten components of the software system have been installed in the computer. Payment should be made in a proper manner.
- (f) Although it was agreed that 07 other software systems would be installed for free after making full payment to the software system along with 10 devices, according to the tender form submitted by the second party, and also all the money has already been paid by now, the software systems to be provided for free had not been installed. There are also 07 free software systems installed on the computer. Since 17 devices are not currently active in the system actions will be taken to complete in future. Actions should be taken to get those software systems installed as soon as possible.