

Walalawita Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Walalawita 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 reported 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 Walalawita 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 Sabha | Recommendation |
|--|--|---|
| (a) Although the accounting activities of Local Government Institutions from 01 January 2020 should be prepared in accordance with the Gazette Notification in accordance with the Local Government Rules, the Sabha had not prepared accounts in accordance with those instructions. | Because of lack of a knowledgeable officer on Accounting Standards, accounts will be prepared in accordance with the Rules after receiving a training. | Accounts should be prepared in accordance with the Gazette Notification in terms of the Local Government Rules. |
| (b) Although the value of the land and buildings should be recognized separately and account for in terms of No. 6.3 of the Sri Lanka Public Sector Accounting Standards for Local Authorities 2017, the value of land and buildings cost at Rs.52,102,703 had not been separately recognized and accounted for. | Because of lack of a knowledgeable officer about the assessment, the Assistant Commissioner of Local Government has been informed about that. | Assets should be accounted for in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities. |

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| <p>(c) Although the purchase and construction of fixed assets should be shown as investment activities in the cash flow statement in terms of No. 3.29 of Sri Lanka Public Sector Accounting Standards for Local Authorities 2017 and also a sum of Rs. 1,775,275 had been incurred for the purchase and construction of fixed assets during the year under review, it had been overstated by Rs. 1,878,695 indicating as Rs. 3,653,970 under investment activities in the cash flow statement.</p> | <p>Corrections will be made through financial statements 2021 .</p> | <p>Assets purchases should be properly entered into the cash flow statement in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.</p> |
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1.6.2 Accounting Deficiencies

| Audit Observation | Comments of the Sabha | Recommendation |
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| <p>(a) A number of 240 road drainage systems and other construction projects constructed under external provisions during the year under review at a cost of Rs. 131,213,274 had not been accounted for under property, plant and equipment .</p> | <p>This will be corrected by the financial statements 2021 .</p> | <p>It should be accurately accounted for.</p> |
| <p>(b) Although a sum of Rs. 4,629,391 should be allocated for 12 projects as creditor provisions during the year under review under Sabha Contracts , as a result of the allocation of only Rs. 65,800, a sum of Rs.4,563,591 had been underprovided.</p> | | |
| <p>(c) Creditor provisions had not been made available for a sum of Rs. 2,952,925 which had to be paid to the Director General, Pensions at the end of the year under review.</p> | | |

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| (d) | A new assessment had not been made in respect of 66 land and building items valued at Rs. 52,102,703 and accounted for during the year under review. | An assessment will be made and accounted for in future. | It should be accurately accounted for. |
| (e) | Instead of accounting for the assessed value of Rs.99,155,303 for 03 property items, the book value had been brought to accounts. | Because there are no enough suitable officers, a suitable committee will be appointed for this purpose in future. | |
| (f) | Instead of accounting for the stock of the stores valued at Rs. 2,525,282 by a physical confirmation, the book value had been brought to accounts. | This will be corrected by the financial statements 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. 675,941 and the recurrent expenditure exceeding the recurrent income for the preceding year as against to that was Rs. 9,040,958.

2.2 Revenue Administration

2.2.1 Performance on Revenue Administration

| Audit Observation ----- | Comments of the Sabha ----- | Recommendation ----- |
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| (a) The arrears of meat stall rental income remaining from the year 2012 amounting to Rs. 56,637 had not been recovered even by the end of the year under review. | Actions will be taken to examine and recover from the relevant persons in future. | Actions should be taken to recover the arrears of rent . |
| (b) The court fines and stamp duties to be recovered from the Chief Secretary of the Provincial Council and Other Authorities were Rs.1,272,541 and Rs. 5,301,318 respectively. | Arrangements should be made to recover the arrears. | Actions should be taken to recover the arrears of balances. |