

## **Rajanganaya Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Rajanganaya Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, including a summary of significant accounting policies, was carried out 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 Sabhas Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Rajanganaya Pradeshiya Sabha as at 31 December 2020, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

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

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My opinion is qualified 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**

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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 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 Sub-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 to be prepared.

#### 1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

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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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Pradeshiya Sabha 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 includes specific provisions for following requirements.

- As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(d)(iv) of the National Audit Act No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Although the billing value for 02 items of account was Rs. 2,474,555 according to the revenue records, it had been stated as Rs. 1,012,850 in the statement of comprehensive income, thus understating by Rs. 1,461,705.	Accepted.	Correct income should be brought to account in the financial statement.
(b) The advance of Rs. 909,904 given on 08 November 2020 for the Thumbullegama 50 Acre Road Development Project constructed by laying paving blocks under the Local Development Supporting Project (LDSP) had not been stated in the statement of assets and liabilities.	Accepted.	Payment of unsettled mobilization advance should be stated as current liabilities.
(c) Although the depreciation value of the buildings in the year under review was Rs. 6,527,889, it had been stated as Rs.6,095,441 in the Statement of Assets and Liabilities, thus understating by Rs.432,448.	Accepted.	Correct value should be brought to account.

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| (d) | The value of the culverts constructed for five roads during the year under review amounting to Rs. 2,592,924 had not been stated under the assets. | Accepted. | This should be stated under the non-current liabilities. |
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## 1.6.2 Lack of Documentary Evidence for Audit

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### Audit Observation

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As detained schedules for 04 items of account worth Rs. 2,106,092 had not been furnished, those could not be satisfactorily verified in audit.

### Comment of the Sabha

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Action will be taken to write off this with the approval of the Governor in the future.

### Recommendation

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Evidence should be furnished to confirm balances.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 15,691,980 for the year ended on 31 December 2020 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 1,352,148.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in Collecting Revenue

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### Audit Observation

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#### (a) Rent

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No action had been taken to recover the arrears of stall rent Rs. 634,008 due as at 31st December of the year under review.

### Comment of the Sabha

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Action will be taken to recover the dues.

### Recommendation

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Action should be taken to recover the arrears of stall rent.

#### (b) Licence Fees

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No action had been taken to recover the outstanding license fee of Rs. 220,425 continued to exist from last year and Rs. 30,000 due from three telephone companies for the year 2020 in respect of 10 telephone towers located in the Pradeshiya Sabha area had not been recovered.

There is a difficulty in recovering as individual balances cannot be found.

Action should be taken to recover the outstanding license fee and telephone towers income.

(c) **Other Income**

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No necessary action had been taken to recover other income of Rs. 6,221,597 as at 31st December of the year under review.

Action has been taken to recover the dues.

Action should be taken to recover the other income.