

Baddegama Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Baddegama Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, 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 and the Provisions of the National Audit Act No. 19 of 2018. 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 accompanying financial statements give a true and fair view of the financial position of the Baddegama Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Generally accepted Accounting Principles, 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 National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(i) During the year under review Rs.3,315,345 of outstanding capital grant had been received by the council however it had not been accounted.	Action will be taken to correct in future.	Should be accounted correctly.
(ii) The statement of financial position as at 31 December 2021 had not been tally by Rs.101,000.		
(iii) In relation to 05 ledger accounts, there was a difference of Rs. 4,687,819 between the values recorded in the ledger and the income expenditure account.		
(iv) The values of 09 plots of land belonging to the council had not been assessed and shown in the final accounts.		

1.6.2 Un reconciled control accounts or Records.

Audit Observation	Comment of the Sabha	Recommendation
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There was a difference sum of Rs. 3,984,540 in between the balance value of 08 accounting items in the financial statements and balance value in relevant utility registers as at 31 December of the year under review.	Actions will be taken to correct the Register.	Differences should be identified and corrected.

2. Financial review

2.1 Financial Review

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 23,899,887 as compared with excess of revenue over recurrent expenditure amounted to Rs. 19,764,887 in the preceding year.

2.2 Revenue administration

Audit Observation	Comment of the Sabha	Recommendation
Rates and Tax		
The outstanding balance of assessment tax was Rs.8,716,506 as at the end of the year under review. 313 units had been shown a arrears of more than Rs.10,000 and the sum of those outstanding balances is Rs.6,210,778. Of these, 280 units had not paid any tax for the year under review. The legal action had not been taken other than engaging in field duty activities to recover these arrears.	Informed that it is difficult to collect income due to Covid-19.	The arrears of income should be recovered.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Baddegama Pradeshiya Sabha's Kumme Stadium Lighting Project		
Without complying with the decision of the procurement committee of the Baddegama Pradeshiya Sabha, contracts valued at Rs. 5,000,000 had been signed without a date and without witnesses related to the Kumme stadium lighting project. The Chief	If the electrical engineer confirms that this is unsafe, action will be taken to remove the electric cable, and to	Actions should be taken to remove the unsafe conditions immediately.

Engineer of the Department of Local Government had stated in writing to the audit that the works done by the contractor based on the estimate were not up to the required standard. An addition of the estimate, an engineering report was requested to be provided to the audit on the possible dangerous conditions caused by unsafe power lines, however the report has not been received yet.

submit the relevant report as soon as it is received.

(b) Failure to Receive Expected Benefits

Rs. 2,459,696 had been spent to provide water to 46 families in Suduvelipatha Kade Kanda area, and only 02 families had been given water by the related project.

Action will be taken to provide water.

Water should be provided to the people living in the area.