

## **Yakkalamulla Pradeshiya Sabha - 2021**

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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 Yakkalamulla 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 Yakkalamulla 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**

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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**

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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)**

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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 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

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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

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Sabha	Recommendation
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(a) Due to the omission of an amount of Rs.210,799 due to industrial creditors, the industrial creditors had been understated by that amount.	Action will be taken to rectified	Corrective action should be taken.
(b) Due to the debiting of the rental income of Rs.1,113,225 written off for the previous year to the rental income account of the year under review therefore The rental income of the year was understated by that amount.		
(c) Although the amount due for 02 industries as at 31 December 2021 was Rs.150,035, it was recorded as Rs.1,750,000, so the industrial creditors had increased by Rs.1,599,965		
(d) Interest income of Rs. 61,486 related to the year under review for 02 fixed deposits owned by the council was not accounted.		

## 1.6.2 Non reconcile control account or reports

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Audit Observation	Comment of the Sabha	Recommendation
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There was a difference sum of Rs. 10,006,066 in between the balance value of 07 accounting items in the financial statements and balance value in relevant utility registers as at 31 December of the year under review.	Action will be taken by find out in the future.	Differences should be identified and corrected the accounts.

## 1.6.3 Lack of documentary evidences for audit

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Audit Observation	Comment of the Sabha	Recommendation
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It was not possible to satisfactorily check 02 accounting items totalling to Rs.3,296,762 due to non-submission of required information.	Action will be taken to rectify.	Evidence supporting to the balance shown in the financial statements should be submitted.

## 1.7 Non compliances

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### 1.7.1 Non compliances with laws rules and regulations

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Reference to laws rules regulations	Non compliance	Comment of the Sabha	Recommendation
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The Financial Regulations 571 and 572 of the Democratic Socialist Republic of Sri Lanka	Regarding 33 deposits amounting to Rs.706,647 which exceeded 02 years, Financial Regulations were not dealt with.	Action will be taken to rectify.	Action should be taken in accordance with the Financial Regulation.

## 2. Financial review

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### 2.1 Financial Review

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According to the Financial Statements presented, recurrent expenditure over revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 1,575,353 as against the revenue over recurrent expenditure amounted to Rs.4,177,826 in the preceding year.

## 2.2 Revenue Administration

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Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Acreage Tax -----		
<p>(i) 339 out of 492 acreage tax units owned by the council had not paid any acreage tax during the year under review, and the acreage tax balance due from those units was Rs.203,650. The council had only informed by letters to collect these taxes.</p> <p>(ii) The outstanding balance of acreage tax was Rs.239,419 as at the end of the year under review. The arrears which has existed for less than 03 years is Rs.27,602. The arrears that has existed for a period between 03 and 05 years was Rs.187,815.</p>	<p>Action will be taken to collected the arrears of income.</p>	<p>Recovery of arrears of income should be done</p>
(b) Rent Income -----		
<p>(i) The rent balance as at the end of the year under review was Rs.1,827,477. Out of which, a arrears of Rs.119,413 had not been collected from 06 units between 2009 and 2011, however the action had not been taken to recover the outstanding balance.</p>		
<p>(ii) The contracts of 9 shops owned by the council have expired in 2019 and 2020, however the shop owners are running the shops without renewing the agreement, and the council had only informed them through letters.</p>	<p>That the arrears will be collected and the agreements will be renewed.</p>	<p>Arrears should be collected and entered in to agreements.</p>