

## **Vadamaradchy South West 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 Vadamaradchy South West Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information 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 provisions of Sub Section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and the National Audit Act, No. 19 of 2018. 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 accompanying financial statements give a true and fair view of the financial position of the Vadamaradchy South West 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 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.

## 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 skepticism 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) The financial statements of the Pradeshiya Sabha is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year except the observation made in paragraph 1.6.1 of this report as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Accounting Deficiencies

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<b>Audit Observations</b>	<b>Comments of the Sabha</b>	<b>Recommendations</b>
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(a) Two capital works valued at Rs. 3,432,039 carried out from the development allocation fund had not been capitalized during the year under review and in 2018, thus the non-current assets and government subsidy for capital expenditure had been understated in the financial statements.	Action is being taken to include the following 02 capital works valued at Rs 2,932,039 carried out from the development allocation fund to the final account by journal entry by the end of 2022.  Action is being taken to include Vathiri pre-school round wall work valued at Rs. 500,000.00 carried out by using the development allocation fund in 2018 to the final account of the 2022 by journal entry.	It should be ensured that transactions are completed and payments are made in accordance with accounting policies and said errors are rectified.
(b) The sabha had prepared vouchers for purchase of materials for 02 work schemes and 11 development work schemes based on bids and estimated amounts and include in the sundry creditors account during the year under review even though such works had not been completed. As such, expenses and current liabilities had been overstated by Rs. 31,451,311 in the financial statements.	All the said 11 works were contracted and the contract amount was included in the sundry creditors account. Payment will be made on completion of works. At the end of the year, when the contract is done in the Pradeshiya sabhas and the work is going on, procedures are being followed to include the contracted amounts in the accounts of sundry creditors for paying to them after completion of work.	It should be ensured that transactions are completed and payments are made in accordance with accounting policies and said errors are rectified.

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| (c) | The loan amount of Rs. 1,550,564 to be paid for the year 2022 for the local loans development fund should have been disclosed as a current liability in the financial statements in the year under review, but as it was absorbed into the loan capital, the current liability had been understated and loan capital had been overstated in the financial statements. | A sum of Rs. 1,550,564 to be paid in the year 2022 for local loan development fund has been used for road development works in the year under review, thus it has been considered as capital expenditure and allocated in the budget for 2022. Also, it had been shown as capital expenditure since the year of loan obtained. | It should be ensured that transactions are completed and payments are made in accordance with accounting policies and said errors are rectified.  |
| (d) | The balance disclosed in the financial statement had been overstated by Rs. 268,030 in comparing with the balance of 31 December 2021 confirmed by the said institution in relation to local development loan; thus the loan capital had been overstated.   | Local development loan amounting to Rs. 268,030 is being shown as a liability in the balance sheet of the year 2007. Other activities related to this amount and files related to entries could not be obtained from records.  | Actions should be taken to submit appropriate audit evidence regarding this matter and it should be confirmed that the evidence related to the activities of the sabha is properly maintained by the sabha. |

**2 Financial Review**  
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**2.1 Financial Results**  
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According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 67,899,056 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 54,377,128.

**2.2 Revenue Administration**  
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**2.2.1 Performance in Collection of Revenue**  
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**Audit Observations**  
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**Comments of the Sabha**  
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**Recommendations**  
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**(a) Rates and Taxes**

It was observed that meaningful steps had not been taken to recover assessment tax of Rs. 2,670,278 to be recovered in respect of lands, constructed houses and buildings located under the purview of the sabha for the period from 1 – 5

As per the valuation held in 1969, the total number of properties comes under the purview of the Vadamardchy South West Pradeshiya Sabha was 12512. The annual assessment tax recovered

Action should be taken to Value of properties comes under the purview of sabha and make efficient revenue collection management

years as per 134 (i) of the Pradeshiya Sabhas Act No. 15 of 1987. Also, the annual age analysis of outstanding income had not been submitted for audit and the scheduled income of rates and taxes was Rs. 142,171 in the year under review, but a sum of Rs. 112,229 was not collected.

through these assets was Rs. 142,171. As such, the assessment tax received per year from each property is Rs. 1. 00 to Rs. 10. 00. Age analysis will be done annually in future.

### 3. Operational Review

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The matters observed in respect of execution of activities that should be executed by the Sabha under Section 3 of the Pradeshiya Sabhas Act such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

#### 3.1 Management Inefficiencies

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##### Audit Observation

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A sum of Rs. 275,748,864 in fixed deposit during the year under review had been deposited in the bank for the purpose of earning interest income without being used for development works.

##### Comment of the Sabha

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A commercial complex in the area of old market of our Pradeshiya Sabha had been estimated at a cost of Rs. 328.7 million by the council and send us. Accordingly it has been decided to carry out the said work from the said fixed deposit.

##### Recommendation

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It should be ensured that funds of the sabha are used for operational activities at optimum level without waste.

#### 3.2 Human Resources Management

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##### Audit Observation

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##### Employee Loan

During the year under review, the sabha did not collect the distress loan and the festival advance of Rs. 304,500 from 04 officers who were vacated their post and retired due for more than 05 years.

##### Comment of the Sabha

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Two of the said officers had been vacated their post. Action is being taken to recover their balances as per provincial financial circular letter no. NP/09/A&P/04/12/CIR/2020. As the other two officers have retired, a PD3 form has been sent to the director of pensions for recovering their balances from gratuity.

##### Recommendation

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Actions should be taken as per the provisions of the establishment code to collect the loan balance in due time.