

Valikamam South West Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam 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 Valikamam 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

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 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)**

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

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 recommendations made by me in the previous year except the observation (a) indicated in the 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

1.6.1 Accounting Deficiencies

Audit Observations -----	Comments of the Sabha -----	Recommendations -----
(a) The value of capital works, donated goods and purchased computers and books totaling Rs 4,669,458 had not been capitalized, thus fixed assets and government revenue subsidy for capital expenditure had been understated in the financial statements	All were erroneously left undisclosed in the financial statements.	It should be ensured timely disclosures in accordance with accounting principles and steps should be taken to include said values in the fixed assets.
(b) Purchase of Goods valued at Rs. 6,290,000 and Rs.18,190,829 for 08 work schemes and 20 work schemes respectively by the sabha in the year under review have not yet been completed. However, payment vouchers therefor had been prepared and included in the sundry creditors account, thus expenditures and current liabilities had been overstated by Rs. 24,480,829 in the financial statements.	Since the income for the sabha is available till the end of the year, the procurement of goods and development work of the sabha starts at the end of the year. Therefore, this accounting system is followed as there is a need to be included in the sundry creditors account for that year.	It should be ensured that the activities are completed in accordance with accounting policies and records are made and that errors should be rectified.
(c) In terms of clause XXX of section 126 of the Pradeshiya Sabhas Act No. 15 of 1987, a fee should be paid for the license issued for the advertisement boards installed under the purview of the sabha. However, the advertisement boards erected under the purview of the Manipay town sub-office are not paid, thus there has been a loss of income of Rs 87,650 in the year under review.	Instructions were given several times in letters regarding the payment for the advertisement boards erected under the purview of Manipay town sub-office.	Effective appropriate action should be taken to make efficient revenue collection management and clear the arrears expeditiously.

- (d) Values of 05 lands, 14 vehicles, 02 number of water pumping machines and 456 number of library books owned by the sabha had not been assessed and included in the financial statements. Therefore the non-current assets and government revenue subsidy for capital expenditure had been understated.
- Lands and vehicles belonging to the sabha have not been shown as assets due to lack of documents and vehicle values are not assessed.
- The value of the water pumping machines was erroneously not shown as fixed assets.
- It should be ensured timely disclosures in accordance with accounting principles and steps should be taken to assess and include their values in the fixed assets.

1.6.2 Non-submission of Documentary Evidences for Audit

Item	Amount Rs.	Evidence not submitted	Comment of the Sabha	Recommendation
(a) Development allocation	25,801,558	Details regarding capital development works	Out of the development allocation of Rs.37.2 million for the year 2021, a sum of Rs. 2,383,500 had been spent for purchasing of computer. Work schemes have been started for balance amount.	In this regard, meaningful steps should be taken as soon as possible.
(b) Opening balance of assessment tax	25,498,555	For which years the said value belongs.	Actions are being taken to disclose the age analysis in the financial statements for assessment tax arrears in the future.	The years to which the value belongs should be disclosed.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 54,400,837 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 42,348,978.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observations	Comments of the Sabha	Recommendations
<p>(a) Rates and Taxes</p> <p>Although the scheduled income of rates and taxes was Rs. 7,818,832, a sum of Rs. 5,517,100 had not been collected. Also according to 134 (i) of the Pradeshiya Sabhas Act No. 15 of 1987, it was observed that no meaningful actions had been taken to recover assessment tax arrears of more than 02 years of Rs. 22,083,894 recoverable on lands and constructed houses and buildings comes under the purview of the sabha.</p>	<p>Migrant owners of the property were unable to remit the entire scheduled income due to travel restrictions.</p> <p>A red notice is issued to the owner of the more outstanding amount by the sub-office and arrears of Rs. 4,943,129 had been recovered during the year under review.</p>	<p>Effective appropriate action should be taken to make efficient revenue collection management and recover the arrears expeditiously.</p>
<p>(b) Rent</p> <p>There were lease arrears of Rs. 550,424 for more than 02 years as at the end of the year under review.</p>	<p>Even after a lawsuit was filed and a judgment was given regarding the non-payment of the lease of Kakkaitivu fish market, the arrears remain unpaid. Actions will be taken to recover the outstanding amount following the case.</p>	<p>Meaningful actions should be expedited regarding the said arrears.</p>
<p>(c) 11 numbers of shops provided by the sabha on long term lease and 04 market shops of the sabha were not leased out by calling bids during the period of under review, thus a sum of Rs. 1,365,484 was a loss of income to the sabha during the year under review.</p>	<p>Bids had been called on 17 February 2022 for leasing out the upper floor shops of Manipay market building block. But as no one came forward to take it on rent, it was not given on rent till the end. A sabha decision has been taken regarding re-tendering. Follow up action will be taken soon.</p> <p>Even though bids had been called for the said 04 markets, bids had not been given by them. Hence the it could not be given by calling bids again.</p>	<p>Meaningful actions should be taken to fully utilize the income sources of the sabha for income purposes.</p>

3. Operational Review

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

Audit Observation

During the year under review, a fixed deposit of Rs. 187,094,067 had been deposited in the bank for the purpose of earning interest income without being used for implementing development works.

Comment of the Sabha

Development works have been carried out for the development allocation amount of Rs 25,315,104 from the sabha's fixed deposit of Rs 187,094,067 till April 2022 and action is being taken to carry out the development works in the coming months.

Recommendation

It is necessary to ensure that the sabha funds are involved in development activities at optimum level without waste.

3.2 Procurement Management

Audit Observation

It was observed that a field survey was carried out contrary to 2.3.1 (a) of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka 2006 in relation to the retaining wall for Masiyapitiya Janashakti Road completed by the fund of the Sabha and the said retaining wall was demolished. Thus the payment for this work amounting to Rs. 74,782 was a useless payment. So it is also considered as a financial loss for the Sabha.

Comment of the Sabha

A letter has been sent to the Executive Engineer, Road Development Authority, Jaffna regarding the follow-up action regarding the demolition of this barrier.

Recommendation

Follow-up action should be taken quickly in this regard.