

## **Valikamam North 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 Valikamam North Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021, Income and Expenditure Account, 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. 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 financial statements give a true and fair view of the financial position of the Valikamam North 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 Practices.

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

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I expressed qualified opinion 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 Practices, 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 Sabhas 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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National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (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 on the preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Value of 02 lands and common hall aggregating to Rs. 886,000, completed capital works during the year under review valued to Rs. 6,665,000 and plant and machineries amounting to Rs. 276,070 donated by the Department of Local Government of Northern Province had not been capitalised in the financial statements, thus indicating the value of the non-current assets and capital reserve for capital expenditures had been understated.	Proper action is being taken.	Action should be taken to be shown as per the accounting policies and capitalised the value.
(b) Value of 04 vehicles aggregating to Rs. 1,211,040 had been included in the financial statements, had not been belonging to the council. Thus indicating the value of the non-current assets and capital reserve for capital expenditures had been overstated by the same amount.	Even though the value of 04 vehicles aggregating to Rs. 1,211,040 had been included in the financial statements, had not been belonging to the council and the value of the non-current assets and capital reserve for capital expenditures had been overstated; those vehicle had been provided by the North East Provincial Council and couldn't be transferred the ownership due to non availability of the documents.	. Action should be taken to confirm the activities concluded and recorded as per accounting policies and the specified errors should be rectified.

- (c) Even though 04 works valued to Rs. 10,587,137 had not been completed during the year under review, the paid payment vouchers had been prepared in favour of the official name of Secretary based on the estimate and contract amount and included in the sundry creditors account. Thus indicating while current liabilities had been overstated and excess of revenue had been understated.
- A sum of Rs. 10,587,137 had been accounted as payable because of to be shown the expenditure for the related year to be included as expenditure for the specific year (According to the accrued concept) as payable on 31.12.2021, will be paid in 2022.
- Action should be taken to confirm the activities concluded and recorded as per accounting policies and the specified errors should be rectified.
- (d) 36 Lands belonging to the Sabha had not been valued and included in the accounts. Thus indicating the value of the non-current assets and capital reserve for capital expenditures had been understated in the financial statements.
- Action is being taken continuously for the land survey by survey department regarding 36 lands belonging to the Sabha, will be included in the accounts.
- Action should be taken to confirm the activities concluded and recorded as per accounting policies and the specified errors should be rectified.

#### 1.6.2 Non-submission of Documentary Evidences for Audit

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Item	Amount Rs.	Evidence not submitted	Comment of the Council	Recommendation
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The Land and buildings	81,666,815	Title deeds	.Evidences for this additions made before the year 1993 could not be made available due to destroyed in abnormal situations occurred in the country in past; will be rendered once it made available.	Meaningful action should be expedited in this regard.

## 2. Financial Review

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### 2.1 Financial Result

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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.58,896,846 as compared with the excess of revenue over recurrent expenditure amounted to Rs.21,680,809 in the preceding year.

## 2.2 Revenue Administration

### 2.2.1 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
<b>Rates</b> Value of properties belonging to the sub offices of Tellippalai and Mallakam had not been revalued soon after 1963 and action had not been taken to recover the arrears of rate and tax aggregating to Rs. 435,401 on Land, houses, and buildings constructed belonging to the places vested for pradeshiya sabha in terms of section 134 (i) of Pradeshiya sabha Act. No.15 of 1987 over 03 years.	Rates for the sub offices of Tellippalai and mallakam had been revalued by the department of valuation in last year and is being recovered based on the new assessment from this year. Revaluation activities had been done partially for the sub offices of Kankesanthurai and myliddy. Contineous action is being carried out to recover the rates.	Action should be taken to strengthening the revenue collection management and collection of revenue arrears efficiently

## 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

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) A sum of Rs. 49,028, 110 had been deposited in a fixed deposit account for the purpose of earning interest without being implemented development works	It had been deposited in a fixed deposit with the purpose of the security as it was in current account and receipt of additional income until the period for payments made for completed works from the fund allocated for the development works for the year under review.	Action should be taken to utilize the council fund for the performance activities optimally without being idled.
(b) 10 cemeteries located in the places vested for the sabha had not been belonging to the sabha, had not been valued and included in the	Action is being taken to transfer the ownership of these cemeteries, applications had been forwarded to divisional Secretary.	Action should be taken to confirm the activities concluded and recorded as per accounting policies and the

land and Buildings in the financial statements; thus indicating the value of the non-current assets and capital reserve for capital expenditures had been understated.

specified errors should be rectified.

### 3.2 Human Resources Management

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#### Audit Observation

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Officer's security bond amounting to Rs. 90,000 had not been recovered from 06 officers even up to end of the year under review in terms of provincial finance circular No. PF/01/2017 (a) of 07 March 2020.

#### Comments of the Council

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Proper action is being taken to recover the officer's security bond from related officers.

#### Recommendation

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Action should be taken to recover the security bond.