

Valikamam South Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam South 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 South 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

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

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)

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

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 includes all the recommendations made by me in the previous year described as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Following observations are made.

Audit Observation	Comments of the Council	Recommendation
(a) Even though a sum of Rs. 3,120,286 payables for the Local Loans and Development Fund in 2022, had been shown as Debt capital instead of current liabilities; thus indicating the current liabilities and debt capital had been understated in the financial statements for the year under review.	Local Loan Development Fund issued the loan on long term basis, shown as a long term loan since 2012 in the financial statements. This long term loan will come to lapsed in 2022.	Action should be taken to make the declarations on time as per accounting policies and to show the specified values as a current liabilities.
(b) Even though the council had not been completed 14 works , paid payment vouchers had been prepared and included in the sundry creditors account for the year under review. Thus indicating the expenditures and current liabilities had been overstated by rs. 12,905,758 in the financial statements.	12 works included in the sundry creditors account had been completed out of 14 works. The rest of the works will be completed and settled from sundry creditors account as soon as possible.	Action should be taken to confirm activities concluded, recorded accordingly as per accounting policies and the specified errors should be rectified.

1.6.2 Non-submission of Documentary Evidences for Audit

Item	Amount Rs.	Evidence not submitted	Comment of the Council	Recommendation
(a) 08 land and buildings	4,182,645	Title deeds	Action is being taken to obtain the documents, once it received will be	Action should be expedited regarding taken quickly regarding the

(b)	The opening balance of rate and tax	21,479,200	Age Analysis	rendered to audit Action is being taken to obtain the age analysis related to the arrears of rate and tax	Action should be taken to provide period analyse.
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2. Financial Review

2.1 Financial Result

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.133,517,598 as compared with the excess of revenue over recurrent expenditure amounted to Rs.128,265,221 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.

Audit Observation -----	Comments of the council -----	Recommendation -----
<p>Rate and Taxes Meaningful action had not been taken to recover the arrears of rate and tax aggregating to Rs. 24,611,277 on Land, houses, buildings 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.</p>	<p>Action had been taken to recover the arrears of rate and tax by appointed officers and by mobilisation service. A sum of Rs. 6,688,349.34 had been recovered in first quarter, action will be taken to recover the balance.</p>	<p>Action should be taken to strengthening the revenue collection management and collection of revenue arrears efficiently.</p>

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	Comments of the Council	Recommendation
A sum of Rs. 275,201,655 had been deposited in a fixed deposit account for the purpose of earning interest without being implemented development works	A tender had been called for the construction work (100 million) of up floor of Maruthanarmadam market complex, had been rejected by the Technical Evaluation Committee. Action will be taken to call for the Re-tender and to do the works from development grant.	Action should be taken to utilize the council fund for the performance activities optimally.

3.2 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
As per the agreement made for balance work of Paruththikaladdy Road commenced on 23 September 2021 should be completed on 21 November 2021, however extension of time had been approved up to 30 December 2021 which had not been accepted in audit because of rainfall had been recorded by the Meteorological Department 02 days in September 2021 and 01 day in November. Thus indicating the liquidity damages aggregating to Rs. 148,140 should be recovered from the contractor in terms of condition of the contract 6.4 of schedule 05 of Construction Industry Development Authority.	Paruththikaladdy Road is in under land level. Therefore, it was difficult to measuring the material at the site and unable to start the work during rainfall time. Thus extension of time for a month had been approved. Action will be taken to recover the liquidity damages for the delayed works in future.	Meaningful action should be expedited regarding this matter.