

## **Valikamam West Pradeshiya Sabha - 2021**

---

### **1. Financial Statements**

---

#### **1.1 Qualified Opinion**

---

The audit of the financial statements of the Vlikamam West 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 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 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 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

---

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

---

### 1.6.1 Accounting Deficiencies

---

Following observations are made.

Audit Observation	Comments of the Council	Recommendation
(a) Plant and machineries amounting to Rs. 328,970 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 in the financial statements.	Plant and machineries donated had not been included in the accounts mistakenly, action will be taken to be included in the financial year for this year.	Action should be taken to confirm the activities concluded and recorded as per accounting policies and the specified errors should be rectified.
(b) Even though the council had not been completed 04works, 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. 2,476,120 in the financial statements.	It had been advertised in the newspaper on 09.12.2021 and Letter of Acceptance issued on 31.12.2021 and included in the sundry creditors account.	Action should be taken to confirm activities concluded and payment should be made accordingly as per accounting policies and the specified errors should be rectified.

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

---

Item	Amount	Evidence not submitted	Comment of the Council	Recommendation
	Rs.			
(a) The balance of interest on Local Government Debt	1,263,700	Detail of opening	It was the interest on Loan borrowed from	Action should be expedited regarding

			balances.	Local Loan and Development Fund. Documents pertaining to this had not made available now.	this matter.
(b)	The balance of Local Development Loan	414,052	Detail of balances from the year 2013	It was the balance of Loan received from Local Loan and Development Fund. Documents pertaining to this had not made available now.	Meaningful action should be taken in terms of specific legal provisions.
(c)	The Replacement Reserve	400,000	Detail for the Replacement Reserve.	Balance of Replacement Reserved had been shown from the year 2002. Documents pertaining to this had not made available now.	Action should be expedited regarding this matter.

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

All observations related to non-compliances with Laws, Rules, Regulations and Management decisions etc. be shown under this heading.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Pradeshya Sabha Act No. 15 of 1987 - Section 158 (1)	Warrants had not been issued those who had failed to pay Rs 17,546,173 the arrears of rates over 03 years.	Warrants had been prepared, action will be taken within the year 2022.	Proper action should be taken in terms of specified legal provision.

## 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. 39,305,981 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 21,734,782 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>Rate and Taxes</b> Meaningful action had not been taken to recover the arrears of rate and tax aggregating to Rs. 17,546,173 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 over 03 years and the opening balance of arrears of rates aggregating to Rs. 16,912,485 could not be ascertained in audit due to non-availability of year of assessment for audit.	Considerable arrears of rates had been decreased due to the mobilisation services conducted monthly. Further, recovery delayed because of the posts of a Revenue Supervisor was vacant and nobody willing to take the appointment for Distraining officer, existing Distraining officers had also been left from this service. However the action will be taken to avoid those through legal court within July 2022.	Action should be taken to strengthening the revenue collection management and collection of revenue arrears efficiently. Meaningful action should be taken to strengthening the revenue collection management quickly and show the age analysis for the arrears of rates in the financial statements.

## 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. 89,607,611 had been deposited in a fixed deposit account for the purpose of earning interest without being implemented development works	Fixed deposit fund amount of Rs 89,607,611 had been reserved during the year under review for the development works.	Action should be taken to utilize the fund for the development activities optimally without being idled.
(b) 08 shops should be rented out on long term lease basis, had not been to do so. Thus, indicating the revenue loss of Rs. 292,200 to the sabha for the year under review.	Tender had been called by Uthayan and Thinakkutal daily news papers on 02.03.2022 and awarded on lease basis.	Meaningful action should be taken to be utilised the assets for earning by sabha.