

Velanai Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Velanai 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 Velanai 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 the 05 works completed during the year 2020, 2021 had been shown as expenditure, had not been capitalised; thus indicating the value of Rs 7,982,173 the non-current assets and capital reserve for capital expenditures had been understated in the financial statements.	Had not been commented.	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 02 items valued to Rs. 967,290 had not been received, the paid payment vouchers had been prepared for and included as payable in the sundry creditors account. Thus indicating while current liabilities had been overstated and excess of revenue had been understated in the financial statements for the year under review.	Specified 02 solar lights had been purchased and assembled.	Action should be taken to record as per accounting policies and the specified errors should be rectified.
(c) Even though 18 works had not been completed during the year under review, the paid payment vouchers had been prepared for and included as payable in the sundry creditors account. Thus indicating while current liabilities had been overstated and excess of revenue had been understated by Rs. 4,808,055.	Had not been commented.	Action should be taken to confirm the activities concluded and recorded as per accounting policies and the specified errors should be rectified.
(d) Stores items had not been brought to the accounts, thus indicating value of the current assets had been understated by Rs. 720,240 in the financial statements for the year under review.	Action had been taken to rectify.	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 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
It had been observed in audit that a differences of Rs. 927,538 in 06 items of balances shown in the ledgers and financial statements for the year under review.	Had not been commented.	Accuracy of the value shown in the documents should be confirmed and the specified errors should be rectified in the documents.

1.6.3 Non-submission of Documentary Evidences for Audit

Item	Amount Rs.	Evidence not submitted	Comment of the Council	Recommendation
(a) The replacement Reserve	5,550,000	Council decision	Replacement Reserve had been eliminated and adjusted.	Action should be taken to submit the related audit evidences for the specified matter and to be confirmed proper maintenance of the audit evidences pertaining to the activities of the council.
(b) 13 cemeteries	5,260,000	Title deeds	It had been requested the Divisional Secretary to define the ownership and vest the ownership to the Pradeshiya sabha. Accordingly, survey plan had been made for 06 cemeteries . continuous action is being taken on others.	Meaningful action should be expedited in this regard.

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.13,383,467 as compared with the excess of revenue over recurrent expenditure amounted to Rs.10,256,132 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
Rent Action had not been taken to recover the arrears of shop rent and lease rentals aggregating to Rs. 210,589 during the period ranging from 02 to 03 years during the year under review.	Arrears of shop rent had been shown mistakenly . Action had been taken to rectify.	Action should be expedited regarding the specified arrears.

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. 34,072,878 had been deposited in a fixed deposit account for the purpose of earning interest without being implemented development works	Had not been commented	Action should be taken to utilize the council fund for the performance activities optimally without being idled.

3.2 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
Staff Loan Action had not been taken to recover the Outstanding distress loan balance of Rs. 458,566 by the council during the year under review which dues from 03 officers during the period ranging from 01 to 11 years.	Had not been commented.	Action should be taken to recover the loan balances on time in terms of the provisions of the Establishment codes.