

Addalachenai Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Addalachenai 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 and provisions of 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 Addalachenai 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

Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 Sri Lanka Public Sector Accounting Standards, 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 includes 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 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

Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
The sum of Rs.3,939,000 relating to rent arrears and penalty rent due from the lease of the organic fertilizer production center was not disclosed in the financial statements.	Action will be taken to include in the next financial year's financial statements.	Financial statements should be prepared correctly.

2. Financial Review

2.1 Financial Results

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.13,654,109 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 9,945,249 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Acre Tax and Entertainment Tax -----		
Out of the estimated collection of	It was not possible to collect	Actions should be

Rs.800,000 in the year under review, only Rs.130,380 had been collected and another Rs.669,620 should have been collected. revenue due to the bad situation during the year under review. taken to bill and recover as per estimated income.

(b) **Rent**

The arrears due from lease given by tender as at 31 December of the year under review was Rs.291,300, and out of that a sum of Rs.273,300 belonged to a period of more than 05 years. Arrears have been written off as they remain unidentified. Steps should be taken to recover the revenue promptly.

(c) **Courts Fines**

Court fine fees to be collected from the Chief Secretary of the Provincial Council and other authorities on 31 December 2021 amounted to Rs.4,916,483. Steps have been taken to recover the arrears. Steps should be taken to recover the revenue promptly.

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.

Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) The arrears of solid waste disposal charges from Kareithivu Pradeshiya Sabha as at 31 December 2019, which were overdue for 04 years amounted to Rs.531,560. It was decided in the People's Assembly held in 2019 to collect through legal measures, but such legal measures had not been collected even by 31 August 2022.	Legal action will be taken to recover the balance.	Steps should be taken to recover arrears.
(b) Actions were not taken in terms of Section 154 of the Local Council Act to charge one percent of the sales value of Rs.8,812,350 from 1,514 immovable properties in the council's	As the sale was made through an agent or a broker, the one percent tax remained non-chargeable.	In terms of Section 154 of the Pradeshiya Sabha Act, steps should be taken to levy one

area. Due to this, the council had lost an income of Rs.88,123.

percent tax on the sale value of immovable property.

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| (c) | The Sabha had not taken steps to invest the balances of two bank current accounts amounting to Rs.1,293,948 in sources of income generation, which had been inactive for over three years. | Steps will be taken to invest the sources of income generation. | Steps should be taken to invest current account balances in income generating sources. |
| (d) | The value of 33 lands and 21 vehicles had not been assessed and accounted for and no action had been taken to assess them even by the end of the year under review. | Valuation is in progress. | Asset valuation and accounting should be expedited. |