

Koralai Pattu West Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Koralai Pattu West Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, Statement of changes in equity, 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 Koralai Pattu West Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with the 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

1.3 **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 skepticism 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.

1.4 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

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The salary of Rs.3,014,840 paid to the permanent employees and members of the council for the month of December 2021 from the Sabha fund had not been shown in the financial statements as receivables of employees' salary reimbursement.	Accepted. Will be corrected next year.	Accounts must be correct.
(b) A sum of Rs.5,273,452 of premium and interest payable for JCB machines at the end of the year under review was not shown as a liability in the financial statements.		

1.6.2 Documentary Evidenced not made available for Audit

Audit Observation	Comments of the Council	Recommendation
The land deeds, fixed assets register, asset documents, ownership verification documents related to 06 asset balances of Rs.79,816,655 stated in the financial statements as at 31 December of the year under review had not been submitted.	Arrangements have been made to value all the assets of the Sabha. Details of assets will be recorded after completion of valuations.	Evidence to prove the assets should be submitted to the audit.

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. 1,384,985 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 893,325 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the Sabha are given below.

Audit Observation	Comments of the Council	Recommendation
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(a) The council had not taken steps during the year under review to collect Rs.324,024 for butcher shop rent, Rs.852,204 for fish market rent and Rs.146,122 for vehicle tax rent.	Apart from one shop, rent has been collected from fish shops.	Actions should be taken to recover the arrears.
(b) The Sabha had not recovered the rates and taxes arrears of Rs. 11,937,904 from the National Paper Company Limited which was due from the year 1996 to the year 2015.	Since it is not possible to take legal action against this institution, the department has been asked for instructions to take appropriate action.	Actions should be taken to recover the arrears.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) Action had not been taken to recover arrears court fines of Rs.1,553,534, from the provincial council which exceeded 10 years.	The information in the provincial revenue department and the revenue section was checked in this regard, but the relevant documents could not be found. It has been decided to conduct a full investigation in this regard.	Actions should be taken to recover court fines which have been outstanding for a long time.
(b) Although the loan from the Local Government Loan Development Fund (LLDF) was to be repaid within five years, the Sabha had not taken action to pay Rs. 5,273,452 from the year 2019 to the end of the year under review.	It has become difficult to pay the loan installments due to the fact that investigations are being conducted regarding the related vehicle purchases and due to the poor financial condition of the council.	Action should be taken to repay the loans.

3.2 Human Resource Management

Audit Observation

Action had not been taken to fill 06 vacancies related to 07 posts in the Sabha.

Comments of the Council

Although the departments were informed about the vacancies, the positive reply was not received.

Recommendation

Arrangements should be made to fill the vacancies of the posts.

4 Accountability and Good Governance

4.1 Internal Audit

Audit Observation

The internal audit activities of the Council were not carried out in the year under review as per the provisions of Finance Regulations 133 and 134 of the Democratic Socialist Republic of Sri Lanka.

Comments of the Council

This has happened due to employee vacancies and I kindly inform you that this will be corrected in the future.

Recommendation

Internal audit activities should be done.

4.2 Sustainable Development Goals

Audit Observation

Financial allocations necessary to identify and act on indicators to measure the development agenda to be achieved by the council in the year 2030 according to the Sustainable Development Act No. 19 of 2017, was not included in the budget of the year under review.

Comments of the Council

Accepted.
I will implement it in the next financial year.

Recommendation

Sustainable development indicators should be identified and implemented.