

Agalawattta Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Agalawattta Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in net assets/ 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 the Provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Agalawattta Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I express qualified opinion based 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 Sri Lanka Public Sector Accounting Standards for Local Authorities 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 recommendations which I made on financial statements for the preceding year are included 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 Sabha -----	Recommendation -----
(a) Although the cost of construction of the Kekulandala Day Care Center constructed from 2018 to 2020 should be accounted as Rs. 6,889,483, it had been brought to accounts as Rs.10,528,724 that is, a sum of Rs.3,639,241 had been overstated.	This will be corrected by the final account 2022	It should be accurately accounted for.
(b) Although the Baminiagoda public land and road should be accounted for separately, the value of the road amounting to Rs. 23,775,000 had not been accounted for.		
(c) Although the common land of 61 perches in Baminiagoda had been valued at Rs. 9,150,000, it had been accounted under roads and culverts and bridges instead of accounting as land in the financial statements.		
(d) Although the assessed value of the Mananahena public road is Rs.10,632,600, it had been shown as Rs.10,530,000 by understating Rs.102,600 in the financial statements.		
(e) Although a sum of Rs. 25,670 should be allocated as a creditor for supplies under Physical Planning Road Programme No. 04, it had been accounted for as Rs.13,087 by understating Rs.12,582 in the financial statements.		
(f) Although the stamp duty of Rs. 56,544, which was recorded as receivables from non-exchange transactions, should be paid to the Inland Revenue Department, the provision for Creditors had not been made for that.		

(g) Although the Kalupahana pre-school building, which was temporarily built by the Divisional Secretariat at a cost of Rs.500,000 was not transferred to the Sabha, it had been accounted for as assets of the Sabha.

(h) Although the closing stock of stationery as at 31 December 2021 was Rs.597,453, since it was accounted for as Rs.577,421 in the financial statements, current assets had been understated by Rs.20,032 .

(i) Instead of assessing the value of the road pressure machine which has been lying unused since the year 2015 and accounting for the correct value, the book value of Rs.3,180,000 had been accounted for.

(j) Eighteen lands and buildings belonging to the Sabha had not been assessed and accounted for.

(k) A provision for creditors amounting to Rs. 600,000 had been made without implementing the project of distributing aid to low-income earners under sustainable development projects.

(l) The depreciation value of assets of Rs.31,091,976 as at 31 December of the year under review amounting to Rs.1,361,532 had been understated.

This will be corrected by the final account 2022 It should be accurately accounted for.

The Sabha will acquire and assess and prepare all the plans in the future. The assets owned by the Sabha should be assessed and accounted for.

As the approval of the Governor was not received, it has been stated under Creditors. It should be accurately accounted for.

This will be corrected by the final account 2022. Depreciation of assets should be accurately carried out.

2. Financial Review

2.1 Financial Results

The expenditure exceeding the recurrent income of the Sabha for the year ended 31 December 2021 in the financial statements submitted was Rs. 33,267,541 and the income exceeding the recurrent expenditure as against to that for the preceding year was Rs. 11,887,800.

2.2. Performance on Revenue Collection

Audit Observation

The schedules had not been submitted to the Provincial Revenue Department to recover court fines of Rs.3,150,000 and stamp duty of Rs.10,100,000 due on 31 December 2021 from the Chief Secretary of the Provincial Council and Other Authorities even by the end of the year under review.

Comments of the Sabha

Necessary steps will be taken to prepare the schedules and to collect the related money .

Recommendation

Actions should be taken to recover the arrears income.

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

3.1 Assets Management

Audit Observation

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- (a) Although the Kekulandala Day Care Center, which was completed in 06 phases at a cost of Rs.6,889,483 under the Western Province Development Grant was handed over to the Sabha in November 2020, the said building remained intact even at the end of the year under review due to the delay in recruiting the required wardens and assistants.
- (b) Although the JCB machine with an estimated value of Rs. 2,250,000 should be repaired by getting a mechanical engineer to identify the defects and get an assessment report, the above machine which has been out of running condition since November 2018 had not been repaired even by 11 March 2022 after finding the fault and getting the assessment report.
- (c) The Proton tipper which was received as a donation in 2014 with a capacity of 03 cubes had been given on rental basis to external parties up to the year 2017 due to the problems of driving on Sabha roads and lack of a permanent driver. Even though it had been handed over to the Assembly again in the year 2017, although 05 years had elapsed, but it had remained in idle without generating income for the Sabha or using it for the functions of the Sabha from that year to even by 10 March 2022.

Comments of the Sabha

Although the applications have been called to recruit the wardens and assistants, the recruitments have not been carried out due to sufficient applications were not received.

Further works have been stopped for now on the inability to find spare parts.

It has been submitted for the approval of the Finance Committee in order to inform the Assistant Local Government Commissioner to transfer the tipper to another Sabha.

Recommendation

Actions should be taken to recruit and to utilize assets.

Necessary arrangements should be made to repair or dispose.

It should be handed over to another Sabha.

- (d) Although the driver had made a request at the end of 2015 for the repair of the roller with an estimated value of Rs. 2,000,000 and was removed from use since 2015 and also more than 06 years had elapsed by 10 March 2022 due to technical issues, it had not been repaired by obtaining a technical report and identifying the issues of it.
- Even though it has been informed to provide a detailed report to inspect and repair the machine, the Finance Committee has not given approval because it had to incur a lot to carry the machine.
- Actions should be taken to repair and use the machine.