

## **Bandaragama Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Bandaragama 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 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 Bandaragama 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**

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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**

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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)

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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

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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

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### 1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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Non -compliance with Reference to the Relevant Standard	Comments of the Sabha	Recommendation
(a) Budgeted information had not been presented in the financial statements of the year under review in terms of the Section 3.7 of the Standard.	That will be corrected in the final account of the year 2022 .	Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities .
(b) It was observed that the cash flow statement for the year under review was not prepared in accordance with the method of presentation of cash flow statements mentioned in terms of Section 3.27 to Section 3.32 of the Standard as per the below mentioned matters.		

- The comprehensive income of the year had been stated as Rs.61,230,336 instead of showing a surplus of Rs.52,741,814 for the year under operational activities.
- Although the increase in stock during the year amounting to Rs. 494,706 should be shown as cash flow under operating activities, it had been shown as a cash inflow.
- Although the increase in other current assets during the year amounting to Rs.20,000 should be shown as cash outflow under operating activities , it had been shown as a cash inflow.
- Although the decrease in receivables during the year was Rs.29,634,929 it had been understated by Rs. 87,538 under operational activities as Rs. 29,547,391 .
- Although the decrease in payables for the year should be shown as a cash outflow of Rs.12,224,952 under operating activities, it had been shown as a cash inflow.
- Although Rs.5,000,000 invested in fixed deposits in the year 2021 should be shown as cash outflow under investing activities, it had been shown as a cash inflow.
- Although the purchase of property, plant and equipment made in cash during the year amounting to Rs. 19,945,890 should be shown as cash flow under investment activities, it had been shown as a cash inflow of Rs. 39,029,165 .

The cash flow statement for the year 2022 is prepared correctly.

Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities.

• Although the capital grant received in the year 2021 was Rs. 21,744,566, it had been stated as Rs.30,233,088 that is, Rs.8,488,522 had been overstated under financial activities.

The cash flow statement for the year 2022 is prepared correctly.

Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities

• Although long term loan repayments during the year amounting to Rs.5,197,871 should be shown as cash outflow under financing activities during the year, it had been shown as a cash inflow.

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(c) Although an entity should account for land and buildings separately in accordance with Chapter 6.3 of the Standard, a building value of Rs.108,631,860 capitalized from 2015 to 2019 had also been included within the land value of Rs. 109,631,856 as at 31 December 2021 .

Accurate adjustments in land and buildings will be made after the new valuation.

Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities

(d) Although an asset should be depreciated on the basis of its cost after deducting accumulated depreciation and residual value as per the Section 6.10 of the Standard, the residual values of assets were not estimated while calculating depreciation for the year under review and depreciation adjustments had been made based on the cost of the assets.

The depreciation will be adjusted after reducing the residual value in the year 2022.

(e) If an outflow of resources is expected on settlement of a contingent liability, a brief description of the nature of the contingent liability should be disclosed in the financial statements in accordance with Section 11.10 of the Standard. Nevertheless, it had not been identified as an liability and no disclosure was made in the financial statements in respect of 09 cases held during the year under review.

Actions will be taken to adjust the final account 2022 .

## 1.6.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) According to the building register, although there were 29 buildings belonging to the Sabha, the overall values of those buildings had not been identified and accounted for and only the capitalized value of buildings in financial statements in 2020 and 2021 amounting to Rs. 13,012,411 had been stated.	After carrying out accurate valuation of land and buildings, the adjustments will be made from the final account 2022.	Land and buildings should be properly assessed and accurately accounted for.
(b) Within the property, plant and equipment balance, physically identified properties, plant and equipment of Millaniya Pradeshiya Sabha valued at Rs.12,213,571 had also been included. The amount of depreciation related to the year 2021 for those assets, amounting to Rs.1,025,512 had not been adjusted in the accounts.	The depreciation is correctly provided while preparing the final account 2022 .	All fixed assets owned by the Sabha should be depreciated.
(c) The LGS computer software which was purchased for office management on 19 September 2017 under a contract between a private company and the Bandaragama Pradeshiya Sabha amounting to Rs. 3,895,000 had not been accounted for as property, plant and equipment .	This will be capitalized as an asset in the year 2022 .	Computer software should be accounted for as an asset.
(d) Out of the capital expenditure grants amounting to Rs.84,885,223 received in the year 2020, since the amount equal to the depreciation percentages approximately Rs. 8,488,522 of the asset in which the capital grant was applied as transfers made by the government for non-recurrent expenses, it had not been recorded under the debit of the comprehensive income statement in the year under review the surplus for the year had been understated by that amount.	Actions will be taken to indicate accurately in the year 2022.	It should be accurately accounted for.

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| <p>(e) Out of the capital grant of Rs. 84,885,223 received in the year 2020, the surplus or deficit recognized as debit during the year under review had been credited to the reserves and provisions account instead of crediting to the unidentified capital grants account.</p>  | <p>This will be corrected by journal entries in the year 2022.</p>    | <p>} It should be accurately accounted for.</p>                       |
| <p>(f) Capital grants received in the year 2021 amount to Rs.21,744,566 had been recorded under unidentified capital grants in surplus or deficit in the statement of assets and liabilities and also under the reserve and provision account.</p>  | <p>This will be corrected by journal entries in the year 2022.</p>    |   |
| <p>(g) Although the journal entries should be prepared and recorded in the respective ledger accounts for adjustments relating to identified and unidentified capital grants of surplus or deficit during the year under review, it had not been so done.</p>   | <p>} That will be corrected in the year 2022</p>                      | <p>} It should be accurately accounted for.</p>                       |
| <p>(h) Due to the fact that the adjustments made to unidentified capital grants and reserve allocation accounts in surplus or deficit had not been recorded in the statement of changes in equity for the year under review, the value of aggregate equity had not been accurately mentioned as at 31 December 2021 .</p> |   |   |
| <p>(i) Actions had not been taken to identify the values related to 02 auctioned land plots that were handed over to the Sabha and accounted for.</p>   | <p>Actions will be taken to adjust from the final accounts 2022 .</p> | <p>All the assets belonging to the Sabha should be accounted for.</p> |

### 1.6.3 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
There was a difference of Rs. 23,814,671 between the value shown in the financial statements and the value shown in the corresponding reports in relation to 06 accounting items.	Actions will be taken to check differences in the accounts and correct.	Accurate balances should be entered into the Account.

## 2. Financial Review

### 2.1 Financial Results

The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2021 in the financial statements submitted was Rs. 52,741,814 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 41,933,126 .

### 2.2 Revenue Collection Performance

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The arrears of rate as at 01 January 2021 was Rs.3,913,522 and Rs. 2,251,840 or 58 per cent had not been collected by 31 December 2021 .	Arrears of revenue is being recovered.	Arrears of income should be recovered promptly.
(b) A sum of Rs.34,459,994 from stamp duty schedules and Rs.1,006,966 from court fine schedules that were sent to the Provincial Revenue Department for the years 2019, 2020 and 2021 had not been received by 31 December 2021 .	It has not been received from the Provincial Revenue Department.	Actions should be taken to recover the arrears income promptly.

## 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 Management Inefficiencies

#### Audit Observation

Millaniya Pradeshiya Sabha was established as a separate unit from Bandaragama Pradeshiya Sabha on 20 March 2018 and although almost 04 years had passed since its establishment, distribution of assets had not been done between the two Sabhas due to disagreement over the ratio of distribution of assets.

#### Comments of the Sabha

Council Meeting Decision to distribute the assets in the ratio of 70:30 between Bandaragama and Millaniya has been sent to the Commissioner, Local Government.

#### Recommendation

The distribution of assets should be done promptly.

### 3.2 Assets Management

#### Audit Observation

(a) The Chandrasiri Memorial Body Building Center, which was renovated with Rs.800,000 from the Pradeshiya Sabha Fund was given for public use on 15 February 2012 and the building had not been used for a long time and remained in idle without the use of machinery. Similarly, although bodybuilding training activities had not been done in the year 2021, an allowance of Rs.82,500 had been paid to the Bodybuilding Centre Trainer.

(b) The weekly fair building, which was built by the Urban Development Authority and handed over to the Sabha, had remained idle for more than 02 years without arranging for a lease.

#### Comments of the Sabha

Due to the Covid epidemic, training activities have been suspended from May to October and the payments have been made because the service has been provided to keep machine secure.

Due to the Covid epidemic, arrangements have not been made to lease and the trading communities have been informed to restart the weekly fair.

#### Recommendation

Actions should be taken to use the bodybuilding centre for training

Actions should be taken to lease the weekly fair.