

Panadura Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Panadura 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 Panadura 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, 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non -compliance with Reference to the Relevant Standard	Comments of the Sabha	Recommendation
<p>(a) It was observed that the cash flow statement for the year under review was not prepared in accordance with the method of presentation of financial statements mentioned in Section 03 of the Standard as per the following matters.</p> <ul style="list-style-type: none"> • As the Long-term borrowings of Rs.20,000,000 were not recorded as inflows of funds in the cash flow statement, the cash flow generated from financing activities had been understated by that amount. • The capital grants received for projects amounted to Rs.110,549,823 during the year under review had not been recorded in the cash flow statement as financial activities. 	<p>Actions will be taken as per the Standard in future.</p>	<p>Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities .</p>

<ul style="list-style-type: none"> As a result of interest income of Rs.5,245,605 was not recorded under investment activities in the year under review, the cash flow generated from investing activities during the year had been understated. Adjustments had not been made to identify the depreciation of assets amounting to Rs.6,561,844 and capital expenditure grants identified in surplus or deficit under operational activities identified from surplus or deficit. 	Actions will be taken as per the Standard in future	Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities
(b) Although the land and buildings should be accounted for separately, in terms of Section 6.3 of the Standard, the lands and buildings valued at Rs.266,798,885 remained at the end of the year under review had not been accounted for separately.	Actions will be taken as per the Standard in future.	Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities
(c) Although a method of depreciation should be selected and depreciated in terms of Section 6.15. of the Standard, the property, plant and equipment had not been depreciated during the year under review.	The depreciation was not done as the assets have not been completely recalculated.	Assets should be depreciated.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the loan installments of Rs.2,790,000 payable for the compactor in the year under review should be credited to the creditor's account, it had been credited to the contribution from income to capital investment account.	This will be corrected from the final account 2022 .	It should be accurately accounted for.
(b) Since the amount of Rs. 2,790,000 paid in court fines and stamp fees for the compactor of the year under review was not deducted of court fines and stamp duty receivable, the court fines and stamp duties receivable had been overstated.	This will be corrected from the final account 2022 .	

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| <p>(c) Although the stamp duty receivable at the end of the year under review was Rs.104,899,784, it had been accounted for as Rs.80,000,000 in the financial statements.</p> | <p>There is an error of entry.</p> | <p>It should be accurately accounted for.</p> |
| <p>(d) Due to the fact that the stamp duty and court fines related to the year under review Rs. 81,000,000 were credited to the accumulated fund instead of being credited to the income from non-exchange transactions the surplus had been understated by that amount.</p> | <p>The stamp duties and stamp duty and court fines will be credited to the income in future.</p> | |
| <p>(e) Library books received as donations in the year under review valued at Rs.83,474 had not been accounted for as capital grants.</p> | <p>This will be corrected from the final account 2022</p> | <p>It should be accurately accounted for.</p> |
| <p>(f) A provision of Rs.3,625,000 had been made instead of the provision for creditors Rs.2,750,000 creditor's to be paid to the private entity for garbage disposal.</p> | | |
| <p>(g) Instead of the stamp duty payable Rs.39,660, it had been stated as Rs.34,060, by understating Rs.5,600 .</p> | | |
| <p>(h) Although the purchase of common storage materials Rs.15,142,601 and electrical storage materials Rs.6,783,704 were debited to the stock accounts and credited to the cash book, it had also been credited with the same amount to the accumulated fund account.</p> | | |
| <p>(i) The expenditure of common storage and electrical storage issue expense of 21,763,509 had been debited to the accumulated fund account instead of being debited to the statement of comprehensive income.</p> | | |
| <p>(j) The common storage and electrical storage in hand in 03 Sub-offices amounted to Rs. 1,646,808 had not been accounted for as current assets in the</p> | | |

<p>statement of assets and liabilities.</p> <p>(k) A sum of Rs.6,197,995 had been removed from the electrical storage stock.</p>	<p>This will be corrected from the final account 2022</p>	<p>It should be accurately accounted for</p>
<p>(l) Instead of salary reimbursements and membership allowances receipts for the year under review amounting to Rs. 116,158,650 are credited as exchange transactions , it had been debited to the other income account and credited to the accumulated fund.</p>		
<p>(m) Although the capital grants received for projects in the year 2020 should be depreciated according to the asset depreciation rate on the balance of Rs. 81,965,809 for non-recurrent expenses and recognition to the income of the year and the writing off from and capital grants should be made, during the year, it had not been done during the year under review.</p>	<p>Recognizing to income of the year and deductions from capital grants were not made and it will be corrected in future.</p>	
<p>(n) Although the bills of rates in the year under review amounting to Rs.29,304,163 should be credited to income from non-exchange transactions, it had been credited to the accumulated fund.</p>	<p>This will be corrected by the final account 2022</p>	<p>It should be accurately accounted for</p>
<p>(o) Although the discounts and warrant fees given on rates during the year under review amounting to Rs. 1,463,426 should be accounted for as expenses in the statement of comprehensive income, it had been debited to the accumulated fund.</p>		
<p>(p) Although a sum of Rs.33,801,884 received and receivable in the year under review under external provisions should be credited to the capital grant account and debited to the industrial debtor account, the capital grant account was credited with Rs.110,549,823 and the industrial debtor account had been debited with the same amount.</p>		

- (q) The project assets of Rs.111,095,514 implemented under external allocations and Sabha funds in the previous year were not depreciated according to the depreciation rate and adjusted to the financial statements.
- (r) External Provisions Creditors amounting to Rs.33,801,884 had not been credited to the creditors' control account and debited to the relevant fixed asset accounts by recognizing as paid and payable during the year under review.
- (s) Although a sum of Rs.145,514,987 paid and payable for Sabha projects during the year under review should be credited to the industrial creditors account and debited to the relevant fixed assets account, it had not been so done.
- (t) Instead of debiting Rs. 137,082,552 to the related expense account in the year 2021, expenses creditors (excluding industrial creditors) it had been debited to the accumulated fund.
- (u) The loan amount of Rs.20,000,000 received from the Domestic Credit Development Fund had not been recorded in the financial statements as payable during the year under review.
- (v) The employee security deposits and employee guarantee deposit investments in the year under review had been understated by Rs.53,071 .
- (w) Instead of crediting the fixed deposit interest income of Rs.3,734,864 to the interest income account for the year under review had been credited to the accumulated fund instead of crediting the interest income account.

This will be corrected by the final account 2022

It should be accurately accounted for

<p>(x) Although the employee loan interest income in the year under review, of was Rs.1,510,741 it had been stated as Rs.32,937 in the financial statements by understating Rs.1,477,804.</p>	<p>This will be corrected by the final account 2022</p>	<p>It should be accurately accounted for</p>
<p>(y) Instead of accounting for a sum of Rs.1,399,571 payable to the Director General of Pensions at the end of the year under review as a creditor, it had been stated as Rs.1,313,438 by understating Rs.86,133 .</p>		
<p>(z) Although a sum of Rs.1,313,438 payable to the Director General of Pensions for the year under review should be debited to the expenditure account, deficit and surplus account had been debited.</p>		
<p>(aa) Creditors of Rs. 6,000,000 had been allocated for 02 welfare projects for which the procurement activities were not started during the year under review.</p>	<p>Creditors were allocated based on the information provided during the submission of financial statements.</p>	<p>Creditors should be allocated only for committments.</p>
<p>(ab) The balance of arrears of other income account amounting to Rs.94,752,754 had been credited to the income control account instead of crediting the arrears of income account.</p>	<p>It will be correct from the final accounts 2022 .</p>	<p>It should be accurately accounted for.</p>

1.6.3 Unreconciled Control Accounts or Records

<p>Audit Observation</p> <p>-----</p>	<p>Comments of the Sabha</p> <p>-----</p>	<p>Recommendation</p> <p>-----</p>
<p>There was a difference of Rs. 17,956,271 in between the value shown in the financial statements and the value shown in the corresponding reports in relation to 06 accounting items.</p>	<p>This is due to the adjustment of the difference between the financial statements and the schedules for the year 2020.</p>	<p>Financial statement balances and schedule balances should be the same.</p>

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. 95,803,561 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 29,679,395.

2.2 Revenue Collection Performance

Audit Observation	Comments of the Sabha	Recommendation
(a) A sum of Rs. 29,794,352 out of arrears of rates at the end of the year under review there was an arrears of Rs. 4,406,656 for 474 rates holders in the Keselwatta sub-office jurisdiction for 10 years.	Answers have not been given.	Arrears of income should be recovered promptly.
(b) At the beginning of the year under review, the rental income of the commercial premises was Rs. 4,589,663 and out of which Rs.4,261,713 or 93 per cent had not been collected during the year under review. Within that balance, there was Rs. 2,434,612 due from Keselwatta Police Station for more than 12 years.	The most of the arrears of shop rents are the arrears entitle to the Keselwatta Police Station.	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	Comments of the Sabha	Recommendation
<u>Provision of Waste Disposal to External Parties</u> A sum of Rs. 29,100,000 had been spent to a private company for the disposal of 1,164 tipper loads of waste in the form of biodegradable, non-biodegradable and mixed waste in the year 2021 and the following		

observations are made in this regard.

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| <p>(a) Although the bids shall be opened and the Technical Indicative Committees shall give recommendations for tendering in accordance with Section 6.3.6 and 7.11.1 of the National Procurement Guidelines, The contractor had been selected only by the decision of the procurement committee by the decision of the Procurement Committee without giving any technical decisions after appointing the above committees.</p> | <p>As the Technical Evaluation Committee of the year 2020 has satisfied and that the Technical Committees 2021 were not appointed because the works had to be done urgently.</p> | <p>Technical advisory committees should be appointed and technical recommendations should be obtained.</p> |
| <p>(b) Although an environmental permit should be obtained from the Central Environment Authority according to the contract agreement with the supplier from 01 January 2021 to 31 December 2021, it had not been so done.</p> | <p>Actions have been taken to obtain an environmental permit.</p> | <p>An environmental permit should be obtained for waste disposal.</p> |
| <p>(c) Although separate quotations have to be obtained for the disposal of biodegradable and non-biodegradable, instead of obtaining separate quotations for biodegradable and non-biodegradable waste while signing the contract with the supplier, a contract had been signed for Rs. 25,000 to dispose of 01 tipper load with 03 cubes.</p> | <p>Although it has been asked to submit separate quotations for biodegradable and non-biodegradable waste, the Sabha is unable to raise objections in that regard.</p> | <p>Actions should be taken to get separate quotations for biodegradable and non-biodegradable waste.</p> |
| <p>(d) Although 15 tractors had been used to collect garbage, the garbage collected from those vehicles is transported to Keselwatta Garbage Center for final disposal and agreements had been signed for disposal by tipper load instead of setting up a system of measurement and disposal when disposing of the collected waste by the private sector.</p> | <p>It will cost a lot to buy a bridge scale to measure garbage.</p> | <p>A formal method of measurement should be developed during garbage disposal.</p> |
| <p>(e) Nine tippers were used by a private company in the year 2021, the Sabha had not taken steps to get a measurement report of the capacity of those tippers by the Sabha officers by 24 January 2022.</p> | <p>That the vehicle capacity has been mentioned when submitting the tender.</p> | <p>The capacity of tippers should be measured and reported.</p> |