

Hanguranketha Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hanguranketha Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, was carried out 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 Sabhas 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Hanguranketha Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Generally Accepted Accounting Principles, 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Pradeshiya Sabha 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.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- Except for the observations in Paragraph 1.6.1 (a) of this report, the recommendations made by me during the previous year are included in the financial statements presented 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	Comment of the Sabha	Recommendation
(a) Action had not been taken to rectify the accounting deficiencies in 1.2.1 (a), (e), (f) pointed out in my report on financial statements for the previous year.	Action will be taken to correct it in the year 2021.	Action should be taken to identify differences and make corrections accordingly.
(b) Twenty four projects worth Rs.1,200,000 which were not completed last year were adjusted considering that those projects had been carried out and as such, industrial debtors and accumulated fund had been overstated by that amount in the financial statements.	It has been informed that the observations are accepted.	Errors should be identified and necessary adjustments should be made in the accounts.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
There were differences totalling Rs. 569,709 between the balances totalling Rs. 9,762,054 relevant to 06 items of accounts included in the financial statements and the balance shown in the relevant schedules.	It has been informed that errors in the schedule and the balance could not be ascertained and corrections will be made in the preparation of future accounts.	Action should be taken to identify the differences and make corrections accordingly.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation

Evidence required for audit in relation to 07 account balances totalling Rs. 2,842,059 was not furnished.

Comment of the Recommendation Sabha

It has been informed Schedules should be maintained properly. It has been informed that corrections will be made in the preparation of accounts statements for the ensuing year.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 8,972,042 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 2,517,554.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation

(a) Rates and Taxes

Rates of Rs.1,667,956 was in arrears as at 01 January 2020 and the value of collection as on 31 December was Rs.563,028, accordingly, performance in the collection of revenue was at a poor level

Comment of the Sabha

It has been reported that arrears will be recovered in the future.

Recommendation

Action should be taken to recover the revenue in arrears as per Section 158 of the Pradesiya Sabha Act.

(b) Rent

Arrears of stall rent of Rs. 2,214,537 that had continued to exist over period from 04 to 09 years from 12 shops in the Hanguranketha Public Market Complex had not been recovered. Only the preparation of the files had been done to recover the possession.

Files have been prepared and handed over to the Office of the Commissioner of Local Government on 05 February 2020 to file a lawsuit for the recovery of lawful possession.

Action should be taken to recover the revenue in arrears.

(c) Court fines and Stamp Duty

Court fines of Rs. 87,289 and Stamp duty of Rs. 15,733,922 due from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review had not been recovered.

It has been informed that the observations are accepted.

Action should be taken to recover the revenue in arrears.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) The deposit of Rs. 800,000 which was credited to the deposit account in the year 2018 for the renovation work of Johnsland Road was retained in the deposit account without carrying out the relevant works.	As this amount is insufficient to carry out the renovations as per the estimate, arrangements have been made to carry out the renovations once the money is received.	Action should be taken to ensure the maximum utilization of provisions.
(b) During the year under review, 85 applications had been received for the construction of buildings in the aria of authority of the Sabha, of which building permits were issued only for 45 applications. Issuance of permits was delayed due to delays of 1 to 6 months in obtaining the approval of the Building Research Institute and delays of 1 month to 11 months in the issuance of inspection report of the Medical Officer of Health.	Failure to complete deficiencies in the building application had resulted in this situation.	Activities should be carried out efficiently.
(c) The industrial debtor balance receivable as at 31 December of the year under review was Rs. 3,463,177 of which Rs. 408,733 remained recoverable for more than a period of 03 years.	Although the relevant institutions were informed in writing and orally to obtain the required information and funds, the Sabha has not yet received them.	Action should be taken to recover the debtor balances.

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| (d) | The balance of the industrial creditors account payable as at 31 December of the year under review was Rs. 10,580,098, of which Rs. 2,240,984 was a balance continued to exist from 2013 to 2019. Nevertheless, action had not been taken to settle it. | Action will be taken to settle it immediately. | Action should be taken to settle the creditors balances. |
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4. Accountability and Good Governance

4.1 Environmental Management

Audit Observation

The building at the Wadagama Aspanthiya Solid Waste Center remained idle.

Comment of the Sabha

Machinery required for the production of compost has already been set up and arrangements have already been made for compost production in the future.

Recommendation

Action should be taken to use the assets effectively.