

Ambanganagakorale Pradeshiya Sabha – 2020

1. Financial Statements

Qualified Opinion

The audit of the financial statements of the Ambanganagakorale 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 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 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 Ambanganagakorale 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.
- 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) Without stating the finished work value of 08 projects by the end of the year under review, the contractual value as cash receivable had been stated under the development project Debtors and as such, a sum of Rs. 105,562 had been overstated.	Action will be taken to correct this in the accounts for the year 2021.	Account balances should be corrected.
(b) Although Rs. 56,089 had been brought to account under the creditors in 2019 for fence and gate renovation work of Rammuthugama Community Hall, it had not been carried out. Nevertheless, it had been further stated under the creditors.	The project has not been implemented yet.	Necessary action should be taken with regard to the non-implementation of the project and action should be taken to eliminate it from the accounts if it is not implemented.
(c) Although the debtor and creditor balance of the project for the development of Elagala Sri Pattini Devalaya was Rs.140,118, it had been brought to account as Rs.227,337, thus overstating by Rs.87,219.	Action will be taken to correct this in the accounts for the year 2021.	Account balances should be corrected.

- | | | | |
|-----|--|---|---------------------------------------|
| (d) | The fingerprint machine worth Rs.49,000 purchased during the year under review had not been capitalized. | Action will be taken to correct this in the accounts for the year 2021. | Account balances should be corrected. |
| (e) | Fixed assets totalling Rs.141,860 auctioned and destroyed in the preceding years had been stated in the financial statements without eliminating them from the accounts during the respective years. | Action will be taken to correct this in the accounts for the year 2021. | Account balances should be corrected. |

1.6.2 Lack of Documentary Evidence for Audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Due to non-submission of necessary schedules and documents to confirm balances totalling Rs.4,615,619 of 16 items of account, those could not be satisfactorily verified in audit.	That a committee has been appointed to find out information	Action should be taken to examine the information and correct account balances.

1.7 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions.

Reference to Laws, Rules, Regulations etc. -----	Non-compliance -----	Comments of the Sabha -----	Recommendation -----
(a) 1988 Pradeshiya Sabha (Finance and Administration) Rules Rule 177	Without calling for bids, 30 water meters 50 street lamps and accessories had been purchased for Rs.204,995 on two occasions.	The approval of the Finance and Policy Committee has been received.	Action should be taken in accordance with laws, rules and circular instructions.
(b) Circular of the Commissioner of Local Government, Central Province, No. 2006/02 dated 21 February 2006			

Paragraph 02

The tours of the Chairman should be solely for a matter directly related to the Sabha. However, travel expenses of Rs. 43,000 had been paid from January to August of the year under review without confirming the tour through the summoning letters or acknowledgement.

All calls are not made in writing, and payments have made on duty requirements.

Action should be taken in accordance with the circular instructions.

2. Financial Review

Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs 705,248 for the year ended on 31 December 2020 as against the recurrent expenditure exceeding the revenue for the preceding year amounting to Rs.415,614.

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 total of Rs. 16,656,898 in 08 receivable account balances as at 31 December of the year under review had not been recovered and it included unsettled balances of Rs.8,924,369 relating to a period of more than 01 year and less than 05 years and balances remained unsettled for more than a period of 05 years was Rs.3,115,722.	Action will be taken to recover the receivable income expeditiously.	Action should be taken to recover the receivable income.

- | | | | |
|-----|--|--|---|
| (b) | Development Projects and sundry creditors totalling Rs.11,963,811 as at 31 December of the year under review had not been settled and out of which, the balance remained unsettled for a period of more than 01 year and less than 05 years was Rs.9,186,528 and balance remained unsettled for more than a period of 05 years was Rs.1,578,618. | Action will be taken to settle the payables expeditiously. | Action should be taken to settle the payable balances. |
| (c) | Although audit fees of Rs.539,168 that remained payable from 1994 to 2007 and 2009 to 2013 had been stated under the creditors, no action has so far been taken to pay the relevant audit fees. | Action will be taken to pay the dues in the future. | Action should be taken to pay audit fees expeditiously. |

3.2 **Deficiencies in the contract administration.**

Audit Observation

For the construction of side wall of the Thibbatukana the Playground on the Sabha funds under an estimate of Rs.100,751 construction had been awarded to a Rural Development Society on 11 March 2020 on an contracted value of Rs.100,000. The construction had been completed on 16 March 2020 without being complied with the estimated standards, without informing the supervising technical officer and without any supervisions. The Chairman had certified the payments for the above irregular construction and a sum of Rs. 80,000 had been paid to the relevant contractual society on 12 March 2021.

Comment of the Sabha

Payments have been made subject to the approval of the General Assembly.

Recommendation

Action should be taken on the irregular constructions and payments.