

Baddegama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Baddegama Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, 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 report 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 accompanying financial statements give a true and fair view of the financial position of the Baddegama 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 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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(i) Capital creditors had not taken into account amounting to Rs. 2,398,131 to be accounted as at 31 December 2020.	Actions will be taken to correct in future.	Actions should be taken to correct in future.
(ii) The provision had not been made in the creditors for the audit fees for the year under review.	The amount provided had been considered as an expense for this year and the payment has been made.	The provisions should be made for payables
(iii) According to the information of the Department of Pensions, the balance of the Local Government Service Pension contribution arrears at the end of the year under review was Rs. 6,089,180. However, it had been shown as Rs. 3,369,899 at the end of the year under review. the current liability balance was understated by Rs.2,719,281	Actions will be taken to correct it by future accounts.	Should be accounted correctly.

1.6.2 Un reconciled control accounts or Records

Audit Observation

There was a difference sum of Rs. 591,355 in between the balance value of 02 accounting items in the financial statements and balance value in relevant utility registers and sub registers as at 31 December of the year under review.

Comment of the Sabha

Actions will be taken to correct in future.

Recommendation

The accounts should be corrected by comparing the non-reconciliations between the balances in the financial statements and those in the relevant schedules.

1.7 Non compliances

Non compliances with laws rules and regulations

Instances of non-compliances with laws rules and regulations are as follows

Reference to laws rules regulations	Non compliance	Comment of the Sabha	Recommendation
Regulation 571 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka	A period of 2 years had passed from 2016 to 2018 for the total deposits of Rs. 200,750 and actions had not been taken in accordance with the financial regulations regarding those 25 balances.	Actions will be taken in accordance with the Financial Regulations and settle the deposit balances.	Actions should be taken in accordance with the Financial Regulations.

2. Financial review

2.1 Financial Review

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 19,764,887 as compared with against the revenue over recurrent expenditure amounted to Rs. 18,447,239 in the preceding year.

2.2 Revenue administration

2.2.1 Performance of the collections of Revenue

Audit Observation

Comment of the Sabha

Recommendation

(a) Rates and Tax

Actions had not been taken recover arrears of Assessment tax of Rs.9,084,629 as at 31 December of the year under review.

Assessment tax payments have been minimized due to the past year epidemic situation.

Actions should be taken to recover arrears of Assessment Tax.

(b) Court fines and Stamp Duty

Although requests were made to the Chief Secretary, the action had been taken by the Chief Secretary to settle the court fine due on December 31 of the year under review Rs. 4,926,276 and the stamp duty Rs.110,461,736.

Requests have been made to the Chief Secretary to pay the stamp fees.

The arrears of revenue should be recovered.