

Beliatta Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Beliatta 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 Beliatta 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 ----- |
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| (a) The aggregated loan instalments of Rs.3,444,660 payable to the Local loans Development Fund for the year 2021 had been stated in the Balance Sheet as a non-current liability except for stating it as a current liability. | Actions would be taken to make it correct in the future. | The liabilities should be accurately stated in the balance sheet. |
| (b) The amount of Capital Expenditure that should be accounted under the non-current liabilities of Rs.3,256,933 had not been stated and Capital Expenditure amounted to Rs.1,083,843 had been stated as recurrent expenditure. | Actions would be taken to make it correct in the future. | The Capital Expenditure should be accurately stated. |
| (c) Creditors and Debtors allocations had been made of Rs.1,427,579 for the task of development of an Effluent Treatment Plant under the Donations for specific provincial development in the year 2018 even though the Project had been stated as not continuous in the next year therefore creditors and debtors had been overstated by that amount. | Actions would be taken in the future to remove the creditors and debtors from the documents. | The creditors and debtors amount should be accurately stated. |

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| (d) | Rs.1,724,411 had been spent even though Rs.2,018,000 of allocations for the debtors had been made for the provisions receivable from the Chief Ministry-Southern Office in 2013 for the construction of the front office, therefore Rs.293,589 had been over allocated. | Actions would be taken to settle this in the future by a decision taken at a meeting of the Sabha. | The allocations for the debtors should be made accurately. |
| (e) | The interest received on the fixed deposit during the year under review of Rs.127,726 had been stated as an amount of recoverable interest. | The interest would be taken to the income after the interest renewal notice from the bank received. | The income received should be accurately accounted. |
| (f) | The Court Fines receivable for the year under review had been understated by Rs.102,342. | Actions would be taken to make it correct in the future. | The revenue should be accurately accounted. |

1.6.2 Unreconciled Control Accounts

Audit Observation

There had been a difference of Rs.1,023,072 relevant for 02 items of accounts, between the balances as per the financial statements of Rs.70,892,458 and the balances as per the corresponding reports .

Comment of the Sabha

Actions would be taken to settle in the future.

Recommendation

The differences of the relevant balances should be reconciled and corrected.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation

The necessary information had not been furnished regarding 09 items of account accumulated to Rs.340,041,978 for the audit.

Comment of the Sabha

Detailed documents would be furnished in the future and it had been difficult to find out the details about the balances descending over years.

Recommendation

The Evidence should be furnished to prove the balances declared in the Financial Statements.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.11,544,548 for the year ended on 31 December of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.3,882,988.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

| | Audit Observation | Comment of the Sabha | Recommendation |
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| (a.) | Rates and Taxes | | |
| | i. Actions had not been taken to recover the rates receivable of Rs.1,181,695 and rates had been charged on the assessment made in the year 2007 during the year under review also, therefore it had been 08 years without updating the assessment. | The rates could not be charged because of the Covid-19 pandemic and actions would be taken to recover it in the future and the new assessment had been received at the beginning of the year under review and it had been sent for the approval of the Governor. | The receivable revenue should be recovered as soon as possible and the assessments should be updated timely. |
| | ii. Actions had not been taken to recover the Business and Industrial tax receivable of Rs.77,600 and the arrears regarding the preceding year had been of Rs.81,800. | A law suit had been imposed on charging Rs.31,800 and actions would be taken to recover the rest of the amount in the future. | The receivable revenue should be recovered as soon as possible |
| (b.) | Rent | | |
| | i. Actions had not been taken to recover receivable Stall Rent of rs.1,064,364. | Actions would be taken to recover in the future. | The receivable revenue should be recovered as soon as possible. |
| | ii. Action had not been taken to recover The income receivable from leasing out the Common Market of Rs.766,091. | Actions would be taken to recover the arrears. | -do- |

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| iii. | Actions had not been taken to recover the rent receivable for the renting out the vehicles owned by the Sabha of Rs.1,143,139. | Actions had been taken to recover the rest of the amount and approval had been requested from the Governor to write-off the income receivable for the Public Affairs. | -do- |
| iv. | Actions had not been taken to charge the rent on a temporary assessment by 23 Stalls under the Section 02 of the Circular No. 438/2010/01 of the Commissioner of Local Government (Southern) on 27 December 2010 in the years 2007 and 2012 and had been charged the rent on a decision made by the Sabha and actions had not been taken under the section 04 to charge the keymoney of Rs.438,000 by 04 stalls. Further more the agreements had not been updated of 07 stalls under the section 05 at least every 03 years therefore the time without updating had been in between 01 to 16 years. | Actions would be taken to assess the 23 stalls, to recover the arrears key money and actions had been taken to send the final announcement for the lessees in the stalls. | Actions should be taken according to the circular. |

(c.) Court fines and Stamp Duty

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| The Court fines and Stamp Duty receivable from the Chief Secretary of the Sabha and the other officers of Rs.261,514 and Rs.40,191,592 respectively. | Actions would be taken to recover the arrears. | The receivable revenue should be recovered as soon as possible. |
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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 Operational Inefficiencies

| Audit Observation | Comment of the Sabha | Recommendation |
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| (a.) The approval had not been obtained when installing 1948 Street Lights even though the approval of the Ceylon Electricity Board should be obtained when installing the Street Lights. An amount of Rs.1,874,744 had been spent on the maintenance of the Street Lights and only Rs.114,060 could be reimbursed therefore rs.1,760,684 had been an expenditure that could not be reimbursed. | The Street Lights had been implemented because of the welfare of the public and a request had been made from the Ceylon Electricity Board for the reimbursement. | The Expenditure should be reimbursed and the approval should be obtained when installing new Street Lights. |
| (b.) Actions had not been taken to charge Rs.519,632 during the year under review from 03 persons that had been imposed a law suit against them and also the details regarding the law suit had not been available with the Sabha. | A letter had been sent for the Thangalla Magistrate's Court requesting the details regarding these persons. | Actions should be taken to recover the income receiveable. |
| (c.) The Expected results had not been obtained at the end of the year under review from the Effluent Treatment Plant Development in the Compost Project of Rs.202,400 in the year 2018 commenced on 31 December 2018 and the project had been abandoned because the wires used in the construction had been out of the standard. | No any payment had been made by the Sabha because that the reconstruction using the standard wire had not been commenced by the society and the provisions regarding the project had not been continuous therefore creditors and debtors would be removed from the documents in the future. | Actions should be taken to make the project done according to the Agreement and the Estimates. |