

## **Pathahewahata Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Pathahewahata Pradeshiya Sabha including the financial statements for the year ended 31<sup>st</sup> December 2020 comprising the balance sheet as at 31<sup>st</sup> December 2020, Income and Expenditure Account, Significant accounting policies and other explanatory information for the year then ended 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 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 Pathahewahata Pradeshiya Sabha as at 31<sup>st</sup> December 2020, and of its financial performance for the year then ended in accordance Generally accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the facts set out 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**

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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)**

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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 further:

- 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 whenever 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

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

- (a) The financial statements of Pradeshiya Sabha are consistent with the preceding year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No.19 of 2018.
- (b) The recommendations made by me during the preceding year as per the requirement mentioned in Section 6(1)(d)(iv) of the National Audit Act No.19 of 2018 are included in the financial statements submitted.

## 1.6 Audit Observations on the preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit observation	Comments of the Sabha	Recommendation
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(a) An unclaimed loan balance of Rs.128,700 of two lady officers was adjusted to the employee loan account.	Action will be taken to correct by the financial statement in 2021.	Action should be taken to correct.
(b) The value of building had been understated by Rs.45,195,000.	It will be corrected in 2021.	It should be accounted correctly.

### 1.6.2 Documentary Evidences not made available for Audit

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Audit observation	Comments of the Sabha	Recommendation
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Schedules and other documents pertaining to two account subjects amounting to Rs.9,527,450 had not been submitted for audit.	It is informed that it was too late to prepare schedules under the Covid epidemic.	Schedules should be properly prepared for account subjects

## 2. Financial Review

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### 2.1 Financial Result

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31<sup>st</sup> December 2020 amounted to Rs.42,543,078 as compared with the excess of revenue over recurrent expenditure amounted to Rs.29,451,639 in the preceding year. This was due to the increase in assessments and taxes, license revenue and decrease in repair and maintenance costs.

## 2.2 Revenue Administration

### 2.2.1 Performance in Revenue Collection

Audit observation	Comments of the Sabha	Recommendation
(a) Rates and acreage tax		
Rates of Rs.4,777,727 and Acreage taxes of Rs.1,275,580 due at the end of the year under review had not been collected.	It is informed that action will be taken to collect the arrears in the year 2021.	Revenue receivables to the Sabha should be collected.
(b) Rent		
Although a lawsuit has been filed to recover the rent of Rs.1,122,152 from 88 shops at the end of the year under review, the relevant fees had not been charged and The agreement was not entered into for 69 shops based on the new valuation.	It is informed that Cases have been filed and action will be taken in the future.	Arrears should be recovered.
(c) Court fines and Stamp duty		
Court fines of Rs.369,302 and Stamp duties of Rs.36,291,847 due at the end of the year under review had not been collected.	Schedules have been sent and are expected to be received in the future.	Receivables should be collected.
(d) Other income		
The amount receivables of Rs.4,493,500 for 506 three wheelers and 07 telecommunication towers had not been calculated and charged.	Action will be taken based on the legal advice given by the Local Government Department.	Revenue due should be collected.

## 3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Sabha under Section 03 of the Pradeshiya Sabha Act are shown below.

### 3.1 Management Inefficiencies

#### Audit observation

The total amount due over a period of 05 years of Rs.17,047,488 including assessments, stamp duty and water charges were not collected and Industry Creditor Balance of Rs.291,038 outstanding for a period of 01 to 05 years had not been settled.

#### Comments of the Sabha

It is informed that action will be taken to settle in the future.

#### Recommendation

Receivables should be collected and payments should be settled.

### 3.2 Idle or underutilized Property, Plant and Equipment

#### Audit observation

The 6,928 square feet Building situated at the Thalathuoya bus stand, which was handed over to the Sabha in 2018, remained inactive without use.

#### Comments of the Sabha

It is informed that there is a problem with the ownership and it will be leased out once it is resolved.

#### Recommendation

Income should be collected properly by assets.

### 3.3 Defects in Contract Administration

#### Audit observation

- (a) Kitulmulla Upper Bridge Reconstruction Industry - Rs. 2,000,000

Despite the fact that the relevant test reports have confirmed that the compressive strength of the concrete used for the foundation of the bridge relevant to the industry is lack of quality, As Rs.374,332 was paid for 18.37 cubic meters of concrete on 24<sup>th</sup> February 2021, the future existence of the bridge, which was built at a cost of Rs. 2,000,000, was in question.

#### Comments of the Sabha

It is informed that the warranty period of this industry has been extended to one year.

#### Recommendation

Construction should be done to the correct standard.

- (b) Fence Construction Industry Around Land of Mailapitiya Kandurata Sadella Lot 13 - Rs.798,616

Rs.337,876 had been paid for the 154 m long fence constructed not complying with the specifications as per the estimate.

It is informed that action has been taken to calculate the financial difference that has resulted on this change.

Construction should be done on the specification.