

Elahera Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Elahera Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of assets and liabilities as at 31 December 2020, Comprehensive Income Statement, Statement of changes in equity, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Elahera Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

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 Sri Lanka Public Sector Accounting Standards for Local Authorities, 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 and Regulatory Requirements

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

- As the Financial Statements have been submitted in accordance with the new Accounting System as per Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31 December 2019, it cannot be compared with the previous year in terms of Sub-section 6 (i) d (iii) of the National Audit Act No. 19 of 2018.
- Recommendations made by me during the last year as per the requirement mentioned in Section 06 (i) d (iv) of the Audit Act No. 19 of 2018 are included in the financial statements submitted.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Standards

Audit Observation	Comments of the Sabha	Recommendation
(a) According to Sri Lanka Public Sector Accounting Standards No. 10.22 for Local Governments, an age analysis of the value of goods receivable from exchange transactions on reporting date should have been submitted, but had not been complied with.	Accepted. It is stated that it will be presented in the year 2021.	Age analysis should be presented.
(b) Shop rent late fees were not accounted for on an accrual basis.	Accepted. It is stated that the accrual basis will be followed in the year 2021.	Should be accounted for on an accrual basis.

- (c) Although library books were to be accounted for as assets under Code No. 205 in accordance with Appendix 02 of the Sri Lanka Public Sector Accounting Standards for Local Government Institutions, books valued at Rs. 3,320,754 held at the end of the year under review had not been accounted for. Accepted. It is stated that although the Appendix is correct, it has been in accordance with the Circulars. Should be accounted for according to the Appendix.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.16,242,573 between the value according to the financial statements and the value according to the schedule in relation to 05 accounting subjects.	Accepted. Action will be taken to rectify the difference.	The difference between documents and schedules should be corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
The information required for the audit had not been submitted in respect of two subjects of account which amounted to Rs. 1,480,580.	It has also been informed that the errors pointed out in the audit will be rectified.	Evidence must be submitted to the audit.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2020 amounted to Rs.11,824,437 and the excess of revenue over recurrent expenditure in the preceding year amounted to Rs.12,891,274.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
The assessed value of arrears rates and taxes to be recovered at the end of the year under review was Rs.333,619 and out of this an amount of Rs.118,303 had been submitted to the Governor for approval for write-off as it was in arrears for a long time.	It has been stated that action will be taken in the future to recover the remaining amount.	Action should be taken to recover in accordance with Section 158 of the Pradeshiya Sabha Act.
(b) Rent		
The arrears Rent of Rs.912,730 had been brought forward for more than two years.	It has been stated that action will be taken on a formal council decision.	Action should be taken in accordance with Section 159 of the Pradeshiya Sabha Act.

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 Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
The amount of Rs.15,675,708 paid during the period from 2015 to 2017 to implement a project to construct a long distance bus stand and a shopping mall without the approval of the Council and to remove a black stone without a feasibility study was became an idle expenses and the Pradeshiya Sabha had not taken action against those responsible for the money and other contingency liabilities.	Action will be taken on the investigation report of the Local Government Department	The Pradeshiya Sabha should pay attention to the idle amount and other contingency liabilities and take action to recover from the responsible parties.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation

The council had spent Rs. 537,260 in the year 2020 for the 350 tons of garbage collected annually and according to the Solid Waste Management Action Plan submitted, the waste should have been classified and collected during collection, but it has not been acted upon.

Comments of the Sabha

It is stated that an annual plan has been prepared.

Recommendation

According to the action plan, garbage should be classified and collected.