

Hingurakgoda Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Hingurakgoda 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 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, because of the significance of the matters discussed in the basis for Adverse Opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Hingurakgoda Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Adverse Opinion

My opinion is Adverse 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 adverse 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. The audit could not confirm the legal status of this accounting system.
- 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 except the observations of paragraph 1.2.2 (a), (j), (k), (l) and paragraph 1.2.3 (b), (c), (f), (g), (h) are included in the financial statements submitted.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

	Non Compliance with the reference to particular Standard	Comments of the Sabha	Recommendation
(a)	The Cash Flow Statement to be submitted in terms of Section 3.13 had not been prepared and submitted.	I will take action to submit with the final accounts for the year 2021.	The standard must be followed.
(b)	In accordance with paragraph E.G 4.22 of Appendix 02 of the Standards, relating to the loan amount of Rs.50,508,825 obtained from the Local Loan	I will reveal all the details in the future.	Follow the instructions in the Appendix.

Development Fund for long term borrowings, the details, such as the interest rate, the loan period, the date of receipt of the loan, the date of repayment of the loan, the terms of the loan, the purpose for which the loan was obtained, the collateral and any specific terms of the loan agreement were required to be disclosed along with the financial statements but were not disclosed.

1.6.2 Accounting Deficiencies

----- Audit Observation -----	----- Comments of the Sabha -----	----- Recommendation -----
(a) Rs. 27,252,951 of the court fines and Rs. 8,240,021 of stamp duty revenue existed according to the Provincial Treasury reports for the year under review had not been taken into financial statements.	Accepted. Action will be taken to make relevant adjustments.	Adjustments should be made to financial statements.
(b) Fixed assets worth Rs.31,413,952 as at 31 December of the year under review had not been accounted for under the Property, Plant and Equipment.	I will make adjustments as per the instructions given. Some adjustments have been made.	Unaccounted fixed assets should be identified and accounted for.
(c) Business tax and industry tax due for the year under review were Rs. 114,600 and Rs.70,000 respectively had not been accounted for.	Accepted. I will take necessary action to correct by the new account.	Correct accounts must be submitted.
(d) The year-end debtor balance was calculated without considering received amount of Industry debtors of Rs.49,183,891 during the year under review.	Action will be taken to correct in the year 2021.	Account books should be kept up to date.
(e) The balance of Rs.2,036,341 as at 31 December 2020 in a State Bank relating to the Regional	Action will be taken to correct	Relevant amounts should be accounted for.

Development Cooperation Project had not been accounted for under current assets.

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| (f) | Library books valued at Rs.3,899,826 had not been accounted for as current assets as per Code No. 205 of Sri Lanka Public Sector Accounting Standards Appendix 02 for Local Government Institutions. | Action will be taken to correct in the year 2021. | Library books must be accounted for. |
| (g) | Rs.1,673,725 which had been identified as arrears billboard revenue as at 31 December 2020 was the outstanding revenue as at 31 July 2019 and no action had been taken to identify and account for the arrear income after 31 July 2019 up to 31 December 2020. | Accepted. I will take action to recover the money from the relevant institutions. | Action should be taken to recover the due revenue or to remove the unauthorized billboards. |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
(a) The value of 12 accounting subjects as per the financial statements was Rs.846,670,763 and as per the schedules it was Rs.834,892,327 and therefore a difference of Rs.18,257,792 was observed.	Action has been taken to correct in 2021.	The differences should be compared and the balances corrected.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Information required for the audit had not been submitted in respect of 13 account subjects amounting to Rs. 189,081,395.	Accepted. I will take steps to prevent such weaknesses in the future.	Evidence confirming the account balances should be submitted.

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.11,557,729 and the excess of revenue over recurrent expenditure in the preceding year amounted to Rs.27,579,736.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
Action had not been taken to recover Rates and Taxes amount of Rs.834,801.	Although warrants were issued, arrears were recovered as much as possible due to the shortage of money due to the epidemic situation in the country.	Follow-up should be carried on arrears income..
(b) Other Income		
(i). Although the Pradeshiya Sabha can levy a tax of Rs. 3,000 per annum as a trade tax under section 152 of the Pradeshiya Sabha Act No. 15 of 1987 for 18 telephone towers constructed within the Pradeshiya Sabha area, as the tax had not been collected from any telephone tower constructed in the Council area since 2009, a revenue of Rs.432,000 had been lost up to 31 December 2020.	It states that no taxes have been levied on any of the towers in the council area. Will be working to recover the money in the future.	Action should be taken to recover the due revenue.