

## **Welikanda 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 Welikanda 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 Welikanda 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**

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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**

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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)**

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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 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 Policies

| Audit Observation  | Comments of the Sabha   | Recommendation   |
|--|---|--|
| (a) The Pradeshiya Sabha had not disclosed the property plant and equipment depreciation policy along with the financial statements. | Depreciation is accounted for written down value method and it has been informed that it will be disclosed under the Accounting Policies in future. | The depreciation method and depreciation rates used should be disclosed in the financial statements. |

## 1.6.2 Accounting Deficiencies

|     | <b>Audit Observation</b>   | <b>Comments of the Sabha</b>  | <b>Recommendation</b>   |
|-----|--|---|---|
| (a) | The net value of three building items which were not physically visible as at 31 December of the year under review was Rs.665,076 and had been accounted for under fixed assets without taking action to write-off from books.   | Necessary steps are being taken to obtain approval to write-off from the books as the assets are not physical.  | The value of the building must be accurately identified and accounted for.  |
| (b) | Four items of assets valued at Rs.155,470 purchased during the year under review and last year had not been accounted for.   | Action will be taken to enter this value to the accounts in the future.   | Property plant equipment value and depreciation value should be properly accounted for.   |
| (c) | Capital Expenditure of Rs.1,334,906 incurred during the year under review from the Capital Grant for LDSP Project was accounted for under recurrent expenditure rather than under the Property, plant and equipment.   | As the construction work has not been completed, these assets will be included under the Real Estate Equipment in the future.                         | Expenditure incurred on capital grants should be capitalized on, without considering as recurrent expenses.   |
| (d) | Although the Capital grant of Rs. 3,460,000 received during the year under review should be shown under unidentified capital grants of the Excess / Deficit of Changes in Equity Statement, it was included in the Comprehensive Income for the year under review under the Changes in Equity Statement and was not shown as an unidentified capital grant in excess/deficit in the changes in equity of the assets and liabilities statement. | These capital grants are identified as capital grants received during the year and are shown in the Comprehensive income as they related to the year. | According to the Public Sector Accounting Standards for Local Governments, the capital grant should be indicated under the unidentified capital grant in excess or deficit in the statement of changes in equity. |

- (e) Although the value of cash and cash equivalents as at 31st December of the year under review was Rs. 24,605,356, It was stated in the cash flow statement as Rs.38,965,922, with an increase of Rs.14,360,566. Accepted. Action will be taken to rectify The correct cash balance should be accounted for.

## 2. Financial Review

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### 2.1 Financial Results

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According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.882,185 and the excess of recurrent revenue over expenditure in the preceding year amounted to Rs.5,123,800.

### 2.2 Performance in Revenue Collection

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| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>  | <b>Recommendation</b>  |
|---|---|--|
| -----   | -----   | -----  |
| <b>(a) License Fee</b>  |   |  |
| -----   |   |  |
| The actual square footage of the billboard was not charged for 04 billboards for the year under review and its arrears was Rs.166,250.  | I will correct it in the future. I will take action to recover the arrears.                               | Advertising billboards should be surveyed and charged for their actual square footage. |
| <b>(b) Rent</b>   |   |  |
| -----   |   |  |
| Due to non-payment of shop rent according to the monthly rent assessment of the Valuation Department, the Sabha had incurred a loss of Rs.455,000 as at 31 October of the year under review, relating to 16 shops of Sevanapitiya Second and Third Phase. | Due to the problematic situation regarding the estimated monthly rent, a reassessment has been requested. | Action should be taken to charge assessed rental.                                      |

### 3 **Operational Review**

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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**

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| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>                                   | <b>Recommendation</b>        |
|---|--|------------------------------|
| -----   | -----  | -----                        |
| 12 shops in Sevanapitiya which were in arrears were idle without any business activities as at September 30 of the year under review. | Necessary arrangements are being made to renew the agreements. | Must comply with agreements. |

### 4. **Accountability and Good Governance**

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#### 4.1 **Environmental Issues**

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| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>   | <b>Recommendation</b>   |
|---|--|---|
| -----   | -----  | -----   |
| Although 312 tons of garbage generated annually in the council area has been disposed of to the council landfill at Athugala at a cost of Rs. 5,000,181 in the year 2020, the Council had not paid attention to a systematic solid waste management program for the production of organic manure using biodegradable waste. | We do not have a compactor for transporting garbage. Proposals have been made to build a Non-Perishable Garbage Disposal Center under the 2020 Development Plan and this problem can be solved if it is implemented. | A systematic solid waste management plan should be developed. |