

Hali-Ela Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Hali-Ela Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations for the year ending on that date, Cash Flow Statement and significant accounting policies and other explanatory information 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 which should be read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to the parliament are appeared 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 Hali-Ela Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

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 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing 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 Requirements

Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Haliela Pradeshiya Sabha are consistent with the preceding year.
- In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) As stamp fees revenue related to the previous year had been accounted for less than Rs. 14,050,100, accumulated fund and current assets as at 31 December of the year under review had been understated by that amount.</p> <p>(b) Although the court fines revenue of the year under review has been Rs. 22,157,500, it has been stated as Rs. 9,694,961. As a result of that, revenue of the year and arrears of court fines had been understated by Rs. 12,462,539.</p> <p>(c) Rs. 2,540,000 which had been received under the Local Development Support Project (LDSP) in the year under review had not been stated in the financial statements of the council.</p> <p>(d) Although Staff loan balance as at 31 December of the year under review has been Rs. 7,149,629, it had been overstated by Rs. 756,594 as Rs. 7,906,223 in the statement of financial position.</p>	<p>It has been mentioned that It would be rectified in the preparation of financial statements of the year 2021.</p>	<p>Accounts should be correctly prepared.</p>

1.6.2 Unreconciled Control Accounts or Records

Audit Observation

There has been a difference amounting to Rs. 972,340 as the value of an account item had been Rs. 137,036,701 according to the financial statements and Rs. 136,064,361 according to the corresponding reports.

Comments of the Council

It has been mentioned that It would be rectified in the preparation of financial statements of the year 2021.

Recommendation

Accounts should be correctly prepared.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation

Required documents regarding to an account item amounting to Rs.50,020,484 had not been submitted for the audit.

Comments of the Council

It has been mentioned that It would be rectified in the preparation of financial statements of the year 2021.

Recommendation

Documentary evidences confirming account balances in the financial statements should be submitted.

2 Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December of the year under review amounting to Rs. 14,808,211 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.16,277,597, and a decline of Rs.1,469,386 in the financial result has been observed.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Arrears of rates amounting to Rs. 5,074,165 that had elapsed more than 02 years had not been recovered even in the year under review	It has been mentioned that revenue in arrears had not been able to collect due to Corona pandemic.	Arrears of rates, electricity charges and other revenue should be collected.
(b) Arrears of electricity charges amounting to Rs. 468,559 that had elapsed more than 02 years had not recovered even in the year been under review		
(c) Arrears of other revenue amounting to Rs. 85,721,728 that had elapsed more than 02 years had not been recovered even in the year under review		