

Palindanuwara Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Palindanuwara Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Pradesiya Sabhas 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Palindanuwara 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 for Local Authorities

1.2 Basis for Qualified Opinion

My opinion is qualified based 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, 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Pradeshiya Sabha 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Non-Compliance with the Public Sector Accounting Standards for the Local Authorities

Non- Compliance with reference to the relevant Standard	Comment of the Sabha	Recommendation
(a.) The Cash Flow proceeded by the Operational Activities had not been stated accurately in the Cash Flow Statement of the Financial Statements for the year under review according to the Section 3.28 of the Public Sector Accounting Standards of Sri Lanka 2017.	Actions would be taken to make it correct by the cash flow statement for the year 2021.	The Cash Flow Statement should be prepared accurately.
<ul style="list-style-type: none">• The receivable for the year had been Rs.12,077,626 but it had been understated as Rs.9,965,481 in the operational activities.• The payable for the year had been Rs.9,431,364 but it had been understated as Rs.9,424,481 in the operational activities.	Actions would be taken to make it corrected in the future years.	Actions should be taken to prepare it according to the Standards.
<ul style="list-style-type: none">• The decrease in the received in advance of Rs.1,027 for the year had not been stated in the cash flow statement.	It had been stated accurately in the final accounts for the year 2020.	The fixed assets should be stated accurately.
(a.) The budgeted and the actual details should be declared comparatively in budgets of the financial statements of an entity according to the Section 3.9 of the Public Sector Accounting Standards of Sri Lanka 2017 but a comparison for the year under review had not been presented on revenue and expenditure.	Actions would be taken to make it corrected in the future years.	Actions should be taken to prepare it according to the Standards.

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| (b.) The value of the Lands and Buildings should be realized separately and stated according to the Section 6.3 of the Public Sector Accounting Standards of Sri Lanka 2017 the land at Kurundugasmanana, land at Mananagodalla and the Community Building built in the land had not been realized separately and stated the value of Rs.2,530,000 under the buildings. | Actions would be taken to make it correct. | The fixed assets should be stated accurately. |
| (c.) The cost should be realized basically when realizing Property, Plant and Equipment according to the Section 6.4 of the Public Sector Accounting Standards of Sri Lanka 2017 but the assessed value of rs.19,541,000 had been stated. Therefore the revaluation reserve had been also overstated by that amount. | Actions would be taken to make it correct. | The fixed assets should be stated accurately. |

1.6.2 Accounting Deficiencies

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
(a) The lease rent of Rs 1,442,239 that had been written off by the account by a decision taken by the Sabha because of the Covid-19 Pandemic on 11 August 2020 had not been taken the approval to write off and the amount had been written off by the rent receivables and stated under other receivable amounts.	Actions had been taken to send to obtain the approval but it had not been received yet.	The revenue should be accurately state after receiving the necessary approvals.
(b) Actions had not been taken to assess and state the value of 07 Lands and 02 buildings as at 31 December 2020.	Action would be taken to assess in the future.	The fixed assets should be stated accurately.
(c) 04 Lands cost of rs.5,900,000 not realized even as at 31 December 2020 had not been stated in the accounts.	Action would be taken to assess in the future.	The fixed assets should be stated accurately.

1.6.3 Unreconciled Control Accounts

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
There was a difference of Rs.288,759 relevant for an item of accounts, between the balances as per the financial statements of Rs.89,538,252 and the balances as per the corresponding reports of Rs.89,827,011.	Actions would be taken to correct it by the final accounts for the year 2021.	Actions should be taken to reconcile the balances and make them correct.

2. Financial Review

2.1 Financial Results

According to the financial statements presented made under the Public Sector Accounting Standards of Sri Lanka, revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.4,572,270 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.32,126,700.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a.) The whole arrears of the rates at the end of the year under review had been rs.276,414.	Collection of revenue had been difficult because of the Covid-19 Pandemic and actions would be taken to recover in the future.	Actions should be taken to recover the arrears revenue as soon as possible.
(b.) The whole arrears in acreage tax had ben Rs.58,240 for the year under review.	Actions would be taken to recover in the future.	Actions should be taken to recover the arrears revenue as soon as possible.
(c.) Billing of the annual lease rent had been Rs.4,677,182 but Rs.1,470,780, or 31 per cent that had not been recovered during the year.	Actions would be taken to recover in the future.	Actions should be taken to recover the arrears revenue as soon as possible.
(d.) Billing of the annual trade license had been Rs.523,000 but Rs.171,000, or 33 per cent that had not been recovered during the year.	Actions would be taken to recover in the future.	Actions should be taken to recover the arrears revenue as soon as possible.
(e.) The Court Fines of Rs.1,529,529 and Stamp Duty of Rs.7,460,695 had recoverable from the Chief Secretary and the other officials of the Provincial Council.	Actions would be taken to recover in the future.	Actions should be taken to recover the arrears revenue as soon as possible.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
The financial statements for the year 2020 had not been presented as at 28 February 2021 and it had been presented one month late on 31 March 2021.	The delay had been occurred because of the shortage of the officers to prepare the Final Account.	The Financial Statements should be presented according to the Financial Statements Act.