

Panadura Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Panadura 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 net assets/ 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 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 financial statements give a true and fair view of the financial position of the Panadura 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

I express qualified opinion 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 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 Requirements

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

(a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

(b) The recommendations which I made on financial statements for the preceding year are included 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 Sri Lanka Public Sector Accounting Standards for Local Authorities

Non-compliance with Reference to the Relevant Standard	Comments of the Sabha	Recommendation
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It was observed that the cash flow statement for the year under review had not been prepared in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities No.03 as per the following matters.

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| <p>(a) Although the purchase value of the property and the plant during the year was Rs.20,250,348, the cash flow generated from the investment activities had been understated by Rs. 5,921,500 since it was indicated as Rs. 14,328,848 in the cash flow statement .</p> | <p>A shortcoming that had occurred because of the preparation of accounts for the first time and it will be prepared accurately in future.</p> | <p>It should be accurately adjusted in the accounts.</p> |
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- (b) Although the cash and cash equivalents at the beginning of the year was Rs.65,632,283, since it was stated in the cash flow statement as Rs.53,130,866 the cash and cash equivalents for the year had been understated by Rs.12,501,417.
- (c) In the preparation of the cash flow statement, the fixed deposit interest income was deducted from operating income for the year and that value had not been shown under the investment activities.
- (d) Although the net decrease in cash and cash equivalents for the year was Rs. 12,501,417, a sum of Rs. 2,752,323 had been understated since it was mentioned in the cash flow statement as Rs. 9,749,094 .

A shortcoming that had occurred because of the preparation of accounts for the first time and it will be prepared accurately in future. It should be accurately adjusted in the accounts.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) The value of the compactor provided by the Department of Local Government amounting to Rs. 11,934,000 was undercapitalized by Rs. 279,000 due to less capitalization the fixed assets had been understated by that value.</p> <p>(b) The cost of 04 items construction and improvement of buildings in the year under review amounting to Rs. 2,625,005 had not been capitalized as lands and buildings.</p> <p>(c) As a result of the closing balance of the contract loan amounting to Rs. 18,749,336 had been debited to the expenditure control account by the journal entry No.24 the expenditure control account had been overstated by that value.</p>	<p>The error occurred will be corrected.</p>	<p>It should be accounted for accurately.</p>

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| <p>(d) When entering the general stores less adjustments of the preceding year amounting to Rs.5,487,834 into the ledger by the journal entry No. 33, it had been erroneously brought to accounts by credited to the general stores account and debited to the shortage excess account .</p> | <p>The error occurred will be corrected</p> | <p>It should be accounted accurately for</p> |
| <p>(e) When correcting the overstatement of preceding year's electricity storage stock of Rs. 398,000 by journal entry No. 34 , although the electricity storage account was credited, shortage excess account had not been debited by Rs.398,000 .</p> | | |
| <p>(f) The amount of Rs. 108,588 to be received for the leave without pay from three employees at the end of the year under review, had not been brought to accounts.</p> | <p>The amount of Rs. 4,661 has been recovered from one employee so far and actions will be taken to recover a sum of Rs.103,929 due from two employees from the gratuity.</p> | <p>It should be accurately accounted for</p> |
| <p>(g) Although the employee loan balance at the end of the year under review was Rs. 32,615,460, only the loan amount which was given during the year amounting to Rs. 10,385,442 had been shown in the financial statement.</p> | <p>Actions will be taken to correct the errors.</p> | |
| <p>(h) The value of stock in hand in 02 Ayurvedic Dispensaries at the end of the year under review amounting to Rs. 46,200 had been omitted from the accounts.</p> | <p>Actions will be taken to correct the errors.</p> | <p>It should be accurately accounted for .</p> |
| <p>(i) The stamp duties receivable amounting to Rs. 75,000,000 and the court fines amounting to Rs. 2,000,000 had been understated in the financial statements at the end of the year under review.</p> | <p>That will be corrected from the final account 2021 .</p> | |
| <p>(j) Contract debtors and contract creditors per the trial balance amounting to Rs. 81,965,809 and Rs. 18,749,336 respectively had not been shown in the financial statements.</p> | <p>Actions will be taken to prevent such errors in future.</p> | <p>It should be accurately shown in the financial statements.</p> |

(k)	The fixed deposit interest income as at the end of the year under review had been understated by Rs. 450,459 .	The error occurred will be corrected.	It should be accurately accounted for .	be
(l)	The fixed deposit value at the end of the year under review had been understated by Rs. 1,761,576 .	The error occurred will be corrected.	It should be accurately accounted for .	be
(m)	Employee loan interest received for the preceding year amounting to Rs.700,388 had been stated in the financial statements as revenue for the year under review .	Arrangements will be made not to occur such mistakes in future.	It should be accurately accounted for .	
(n)	A sum of Rs. 105,732 paid for the service agreements for the next year had been brought to accounts as the expenditure of the year under review.	The error occurred will be corrected.	It should be accurately accounted for .	

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
A difference of Rs. 261,113,475 was observed in between the value in the financial statements and the corresponding records.	It will be corrected by the final account 2021 .	Actions should be taken to recognize the difference and to correct the account.

2. Financial Review

2.1 Financial Results

The surplus of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs. 29,679,395 and the deficit of the preceding year as against to that was Rs. 51,036,602.

2.2 Revenue Administration

2.1.1 Performance on Revenue Administration

Audit Observation	Comments of the Sabha	Recommendation
Although the balance of arrears of rates to be received at the end of the year under review as per the total arrears of revenue record was Rs. 32,229,568, a sum of Rs.	The actual balance was Rs.40,186,561 and such errors has occurred because of the information provided by	Accurate balances should be used when preparing final accounts.

40,186,581 had been indicated as the balance of arrears of revenue in the financial statements. The sub-offices were inaccurate.

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

3.1 Management Inefficiencies

Audit Observation

A sum of Rs. 2,518,750 had been deposited on 26 June 2020 at the Panadura Divisional Secretariat for the acquisition of a paddy land of 03 acres and 16 perches belonging to an elders' home with a view of developing as a sports ground. This land had been handed over to the elders' home as a donation by a person on 23 July 2004 under Deed No. 14562 to meet their food needs. The Pradeshiya Sabha has been engaging with acquiring the land to set a ground outside the intended objectives. Further, a feasibility study had not been conducted before depositing money for this paddy land and the cost estimates pertaining to that had not been prepared.

Comments of the Sabha

The recommendation of the Foreman of the Sabha has been obtained for this and the recommendations required for purchase have been obtained from the relevant institutions and submitted to the Ministry of Lands for approval. A feasibility study and cost estimates will be prepared when making future purchases.

Recommendation

Purchasing activities should be begun after a feasibility study and cost estimates are prepared.

3.2 Assets Management

Audit Observation

Arrangements had not been made even by 11 September 2020 to dispose a number of 537 books totalled to Rs. 57,818 as 236 books valued at Rs. 27,301 from 2007 to 2017, 110 books valued at Rs. 12,112 in 2018 and 191 books valued at Rs. 18,405 in 2019 identified as to be disposed during the Board of Survey on Books conducted in connection with the Wadduwa Public Library

Comments of the Sabha

The Council has appointed a Committee in this regard and future actions are being carried out.

Recommendation

Actions should be taken to dispose of books which should be disposed of.