

Palagala Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Palagala Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, 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 Pradeshiya 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 Palagala Pradeshiya Sabha as at 31 December 2020, and of its financial performance and cash flow 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 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 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) As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(d)(iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial

1.6.1 Non-compliance with the Sri Lanka Public Sector Accounting Standard for Local Authorities

Non-compliance with Reference to the Relevant Standard	Comment of the Sabha	Recommendation
In terms of Paragraph 5.2 of Sri Lanka Public Sector Accounting Standards for Local Authorities 2017, the stock should be measured at the cost or net realizable value, whichever is less. Nevertheless, the stock of the concrete production section maintained by the Sabha as at 31 December had been accounted for as Rs. 109,210 on the sales price.	Accepted	Action should be taken in accordance with the standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) As Rs. 167,175 due as at 31 December of the year under review relating to the sale of cement blocks on credit had not been brought to account as receivables	Accepted	Receivables should be brought to account as current assets.

from the exchangeable transaction in the statement of assets and liabilities, the current assets and the profit of the Sabha had been understated by that amount.

- | | | | |
|-----|--|----------|---|
| (b) | Although total interest income receivable for 04 fixed deposits for the year under review was Rs. 628,791, it has been stated as Rs. 468,202, thus understating by Rs. 160,589 in the Fixed Deposit Interest Account. | Accepted | Correct interest income should be brought to account. |
| (c) | As interest income of Rs. 244,217 receivable for 02 fixed deposits for the year under review had not been brought to account as receivable income, current assets and profit of the Sabha had been understated by that amount. | Accepted | Receivable interest income should be brought to account properly. |
| (d) | As a TVS three-wheeler costing Rs. 870,400 had been brought to account as Rs.894,000, fixed deposits had been overstated by Rs. 23,600. | Accepted | Cost should be identified and the value of assets should be brought to account. |

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of revenue amounted to Rs. 12,186,226 for the year ended on 31 December 2020 as against the revenue in excess of the recurrent expenditure for the preceding year amounting to Rs. 3,810,858.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) Rent</p> <p>The Sabha had not taken steps to recover the rent of Rs. 907,962 receivable as at 31 December of the year under review.</p>	<p>Action has been taken to recover the dues.</p>	<p>Action should be taken to recover the dues.</p>
<p>(b) Other Revenue</p> <p>No action had been taken to recover Rs. 1,441,200 due for renting motor grader and soil compactor of the Sabha in 47 instances from 2017 to 2020.</p>	<p>A part of the revenue to be recovered has been recovered. Action will be taken to recover the balance.</p>	<p>All charges should be recovered at the time of renting the vehicle.</p>

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council 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.