

Thirappane Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thirappane 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 Thirappane 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 Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) Outstanding Rates of Rs. 3,338 as at 31 December of the year under review had been understated in the financial statements.	Accepted.	Correct values should be accounted for in the financial statements.
(b) Business tax of Rs. 5,000 as at 31 December of the year under review had been understated in the financial statements.	Accepted.	Correct values should be accounted for in the financial statements.
(c) The billboard income and outstanding revenue as at 31 December of the year under review had been understated by Rs. 706,600.	As these billboards had been removed in the year 2021, that amount could not be recovered.	As the billboards had remained installed in the year 2020, charges should be recovered.
(d) The value of the building with water refinery equipment (Ro-fitter) built in the year under review amounting to Rs. 1,344,000 and the value of 15 items of rice based	Accepted.	Correct value should be brought to account in the financial statements.

bakery equipment with the estimated cost of Rs. 640,300 received as a donation from the North Central Provincial Council in 2010 had not been stated in the financial statements.

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| (e) | The value of 04 bridges amounting to Rs. 152,580,000 that had been built by the Ministry of Local Government and handed over to the Sabha during the year under review had not been brought to account in the financial statements. | The value of these bridges will be included in the financial statements once they are confirmed in writing. | The value of the assets transferred should be properly brought to account. |
| (f) | A sum of Rs. 20,480 related to 09 vouchers payable as at 31 December 2019 had been stated in the financial statements as expenditure for the year under review. | Accepted. | Expenditure relevant to the year under review Should be accounted for. |
| (g) | Although the Sabha had filed a case on 12 November 2020 regarding the default of tax of Rs. 3,332,341 receivable for the year 2019 by a hotel in the Sabha area and registered with the Tourist Board, it had not been disclosed in the financial statements of the year under review. | Accepted. | Action should be taken in accordance with the court decision and these contingent assets and liabilities should be revealed in the financial statements. |

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation

A difference of Rs. 722,727 was observed between the balances of 02 items of account and the balances stated in the relevant subsidiary documents.

Comment of the Sabha

Documents have not been updated.

Recommendation

Action should be taken to update documents.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Information required for audit relating to 04 items of account totaling Rs. 5,370,822 had not been furnished.	Accepted.	Relevant information should be furnished.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 8,192,258 for the year ended on 31 December 2020 as compared with the corresponding recurrent expenditure exceeding the revenue for the preceding year amounting to Rs. 117,700.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) Rates and Taxes</p> <p>No action had been taken to recover the outstanding garbage tax revenue of Rs. 649,585 as at 31 December of the year under review.</p>	As the persons or institutions related to the garbage tax could not be ascertained, tax could not be recovered.	Action should be taken to recover the tax within the prescribed timeframe.
<p>(b) Rent</p> <p>No action had been taken to recover the outstanding rental income of Rs. 446,070 as at 31st December of the year under review.</p>	Action will be taken to recover the dues.	Action should be taken to recover the outstanding rental.

(c) Licence Fee

 The outstanding licence fee revenue of Rs. 1,934,040 as at 31st December of the year under review had not been recovered.

A lawsuit is pending relating to these outstanding licence fees.

Outstanding licence fees should be recovered expeditiously.

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.

3.1 Management Inefficiencies**Audit Observation**

 As the water purifier which was built at Divulwewa Village, Mankulam, at a cost of Rs. 1,344,000 in 2019 with the objective of generating revenue had been removed and installed in the premises of the Sabha in the year 2020, the expected objective had not been achieved.

Comment of the Sabha

 It has been installed in the Sabha premises.

Recommendation

 This water purifier should be used as a source of income.