

Pitabaddara Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pitabaddara Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, statement of changing 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 and the provisions of the National Audit Act No. 19 of 2018. 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 accompanying financial statements give a true and fair view of the financial position of the Pitabaddara Pradeshiya Sabha as at 31 December 2021, 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 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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1. Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) The key money of Rs.14,164,218 charged during the year under review for the lease of shops proposed to be constructed at the new bus stand had been accounted under capital assistance.	The action will be taken to correct by the financial statements being prepared For the year 2022.	Should be accounted correctly
(b) The credit provisions of Rs.28,516,807 had not been made in relation to 02 works which had been contracted and operated during the year under review.		
(c) The over provision for Capital Grant Debtors of Rs. 173,829 had been made at the end of the year under review.		
(d) In relation to 04 works completed during the year under review, Rs. 3,761,123 had not been capitalized		
(e) The provision had not been made at the end of the year under review for sundry expenses amounting to Rs.49,080.		

1.6.2 Lack of Documentary evidence for audit

Audit Observation

Due to non-submission of balance confirmations and detailed schedules, 07 accounting items totaling Rs.3,046,441 could not be satisfactorily checked during the audit.

Comment of the Recommendation Sabha

The action will be taken to correct in future.

Evidence confirming the account balance shown in the financial statements should be submitted.

1.7 Non - compliances

Non - compliances with Laws, Rules, Regulations and Management Decisions

The instances of non - compliances with Laws, Rules, Regulations and Management Decisions are as follows

Reference to Non - compliance Laws, Rules and Regulations

F.R 571 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka

The action had not been taken in accordance with the Financial Regulation regarding 51 deposit balances valued at Rs.917,290 which expired for a period of 02 years.

Comment of the Recommendation Sabha

Accepted the observation.

The action should be done in accordance with the regulation.

2 Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December amounted to Rs. 5,339,119 as compared with excess of revenue over recurrent expenditure amounted to Rs. 7,304,623 in the preceding year.

2.2 Performance of Revenue Collection

Shop Rent

Audit Observation	Comment of the Sabha	Recommendation
----- 104 shops owned by the council had been leased at the end of the year under review, and a arrears of Rs.1,856,254 had to be collected from 67 shops.	----- The Action will be taken to collect the arrears in the future.	----- Arrears of income should be recovered promptly.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Deficiencies in contract administration

Audit Observation	Comment of the Sabha	Recommendation
----- According to the sample audit inspection under the Rural Infrastructure and Sapirigamak People's Participation Rural Development Program in last year, plywood boards were used to prepare the formwork of the side walls and culvert construction work and for that the Southern Provincial Road Development Authority had not introduced a rate. To prepare a suitable rate for the preparation of formwork or as a rate for a similar work subject by the Southern Province Engineering Services Office for the first half of the year 2019 introduced under Ct- 36 Rs. Due to the use of the rate of Rs.3,037.15 instead of the rate of 841, an over payment of Rs.300,499 had been made for 136.83 square meters.	----- The estimates had been prepared by incorporating the prices for ST-036 for the year 2019 issued by the Southern Provincial Road Development Authority for the side planks.	----- Appropriate and favorable rates should be used