

Hanguranketha Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hanguranketha Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account including a summary of significant accounting policies and other explanatory information, 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 Hanguranketha Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 Generally Accepted Accounting Practices, 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 required by 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(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 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) There were omissions of assets balances totaling Rs.10,346,445 on two occasions and understatement of expenditure of Rs.61,170 relating to one occasion in the financial statements.	It has been informed that the error will be corrected in the preparation of financial statements for the year 2022.	Financial statements should be prepared correctly.
(b) Value of new 06 tablet computers and a photocopy machine provided to the Diyathilaka Library by the Information and Communication Technology Agency under the Digital Library Development Programme during the year under review had not been assessed and stated in the financial statements.	It has been informed that action will be taken to include it in the financial statement for the year 2022.	Assets should be disclosed in the financial statements.
(c) Lands and buildings owned by the Sabha had not been revalued and the value of a Rs.130,963 unit of 62 lands and buildings stated in the financial statement had ranged from Rs.25 to Rs.5,000.	It has been informed that action will be taken to include it in the financial statement for the year 2022.	Lands and buildings should be assessed and the value thereof should be brought to account.
(d) Value of loan installments amounting to Rs.1,543,252 payable to the Local Loan and Development Fund for the ensuing year had been stated in the financial statements as long-term liabilities without being stated as current liabilities.	It has been informed that action will be taken to include it in the financial statement for the year 2022.	Short-term and long-term loan balances should be identified and brought to account.

(e)	Machinery and equipment worth Rs.1,023,000 had been stated under the furniture and office equipment and tools worth Rs.98,961 had been stated as Rs.9,080 under the machinery and equipment and as Rs.89,881 under the furniture and office equipment.	It has been informed that action will be taken to correct the errors.	Assets should be correctly classified and brought to account.
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1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs. 1,276,328 between the balances stated in the financial statements and the balances shown in the subsidiary documents in relation to 06 items of accounts during the year under review.	It has been informed that action will be taken to correct the difference.	Differences of the accounts balances should be looked into and accordingly, relevant schedules or financial statements should be corrected.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Information required to the audit in relation to 08 items of accounts totaling Rs. 3,701,112 had not been furnished.	It has been informed that action will be taken to correct the matter in the future.	Evidence required for the audit activities should be furnished.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure of the Sabha in excess of the recurrent revenue amounted to Rs. 876,978 for the year ended on 31 December 2021 as against the revenue of the Sabha in excess of recurrent expenditure amounted to Rs. 8,972,042.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
Rates and Taxes		
Out of the arrears of Rates amounting to Rs. 1,386,737 as at 31 January of the year under review, Rates of Rs. 904,383 from 999 units had not been recovered even by 31 August 2022.	It has been informed that 06 assessment permits have been issued to recover arrears of Rates and in addition, assessment permits are being issued for other defaulters.	Arrears of revenue should be recovered.

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.

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
In order to develop the playground where the Mandaramnuwara library is situated as a weekly fair premises, projects worth Rs.4,000,000 had been implemented by the Divisional Secretariat out of the financial provisions of the Ministry of Economic Development in the year 2014 and 07 years had passed from handing over of those projects to the Sabha. Due to not receiving the provisions requested by the Sabha from the Local Government Department to further develop the fair premises, the fair had not been held even by August 2022.	It has been informed that this land will be developed after the receipt of provisions in the future, and although this land is currently being used by the Sabha, the land will be taken over since there is no deed to the land.	Action should be taken to conduct the fair.

Audit Observation	Comment of the Sabha	Recommendation
<p>Although a shelter had been built at a cost of Rs.1,000,000 for visitors to the Haguranketha crematorium, as the floor had not been prepared, that part needed to be further developed. Further, the roof of the currently used crematorium and the toilets of the crematorium also needed to be repaired.</p>	<p>It has been informed that the necessary measures for the development of the roof of the crematorium, toilet system and the floor, which have been pointed out in the audit query, will be taken in the future.</p>	<p>Short comings of the crematorium should be completed.</p>