

## **Buththala Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Buththala Pradeshiya Sabha including the financial statements for the year ended 31<sup>st</sup> December 2021 comprising the Statement of financial position as at 31<sup>st</sup> December 2021, Statement of Financial Operations, Statement of changes in net assets, 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 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 financial statements give a true and fair view of the financial position of the Buththala Pradeshiya Sabha as at 31<sup>st</sup> December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

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I expressed qualified opinion 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**

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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 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)

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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

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National Audit Act, No.19 of 2018 includes 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 financial statements presented includes all the recommendations made by me in the previous year 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

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comments of the Sabha	Recommendation
(a) Photocopier valued at Rs.159,000 and Rs.109,760 was accounted for under machinery and equipment.		
(b) The actual court fine revenue due at the end of the year under review was Rs. 883,512 but it had been accounted for as Rs.504,679 hence, court fine revenue and operating surplus were understated by Rs.378,833.	It has been informed that correction will be made in the Preparation of accounts in the coming year	The correct value of the receivables at the end of the year should be adjusted to the accounts and the accounts should be prepared.
(c) The actual stamp duty revenue due at the end of the year under review was Rs.746,330 but it had been accounted for as Rs. 514,488 hence, stamp duty revenue and operating surplus were understated by Rs.231,842.		

- (d) Since the industrial debtor value at the end of the year under review, had been over accounted by Rs. 1,299,155 the value of current assets and surplus had overstated
- (e) At the end of the year under review, payable to one industrial creditor of Rs.480,595 had been accounted for as Rs.406,226, hence the industrial creditors have been understated and the surplus was overstated by Rs.74,369.
- It had been mentioned that it will be corrected when Accounts should be preparing in the preparation of financial statement for coming year prepared correctly

## 1.6.2 Unreconciled Control Accounts or Records

### Audit Observation

A difference of 344,691 was observed between the balances related to 03 accounting subjects shown in the financial statements as on December 31<sup>st</sup> of the year under review and the balances shown in the schedules/documents related to them.

### Comments of the Sabha

It had been informed that the schedule will be corrected.

### Recommendation

Documents and schedules should be properly updated and the reasons for non-conformities should be revealed and corrected.

## 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<sup>st</sup> December 2021 amounted to Rs.11,269,244 as compared with the excess of revenue over recurrent expenditure amounted to Rs.8,618,055 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Revenue Collection

### Audit Observation

- (a) Arrears of assessment tax relating to last year Rs.1,714,801 and for the year under review Rs.813,373 had not been collected.

### Comments of the Sabha

It has been informed that a program has been prepared and implemented to recover the arrears.

### Recommendation

Billed revenue should be recovered.

- (b) In charging the monthly rent of 67 stalls which had been leased for a long time by the Sabha, due to the failure to proceed according to the assessment No. MO/RD/498 dated July 24<sup>th</sup> 2018 of the Chief Assessor of Uva Province, as of December 31<sup>st</sup> of the year under review, A revenue Rs.18,166,200 was lost to the Sabha fund.
- It has been mentioned that the Local Government Commissioner has informed to enact by-laws and collect shop rents.
- The rent should be recovered as per the new assessment.
- (c) There was failure to recover rental income of Rs.3,753,662 for the year under review and Rs.5,008,912 for the previous year due to not collecting sufficient advance amount for renting motor graders, tippers, back loaders and lorry bowsers belonging to the council to 164 external parties.
- It has been informed that the arrears will be recovered in the future.
- Arrears should be recovered immediately.