

Warakapola Pradeshiya Sabha - 2021

1 Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Warakapola 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 Performance , 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 Provision 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 Warakapola 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 Practices.

1.2. Basis for Qualified Opinion

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

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)

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

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

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) 03 equipment total worth of Rs. 2,233,000 purchased during the year under review had been capitalized under office equipment.	It had been informed that corrections will be made during the preparation of accounts for the year 2022.	Capital and recurrent expenditure should be accurately identified and accounted for.
(b) A trade tax ledger account was not maintained and due amounts of Rs. 307,257 remained at the beginning of the year under review and the billings for the year of Rs. 2,000,000 regardless of the value due to cash receipts of Rs. 1,134,500 had been only accounted. The trade tax income receivable of Rs 1,172,757 as at the end of the year has not been accounted and understated the income for the year by Rs. 865,500.	That there was no outstanding trade tax balance at the beginning of the year and that the deficit shown was the difference between the receipts of that year and the estimated amount of the previous year. It was informed that the trade tax of Rs 2,000,000 for the year 2021 was not the billing of the year but the estimate and that there was no trade tax balance due at the end of the year.	Billing of the trade tax should be done correctly at the beginning of the year and action should be taken to rectify the account accordingly.

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| (c) | Court fines and stamp duty income have been accounted on cash basis from the year under review which received in the year under review for the previous year of Rs. 40,003,478 were taken to stamp duty income which resulted increasing the income by that amount and the opening court fine balance of Rs.8,624,266 was debited to the accumulated fund in the year under review and the accumulated fund and current assets were reduced by that amount and which was not disclosed by the notes. | Observations had been accepted. | Disclosures should be made by notes where decrease in accumulated fund and current assets due to change in basis of accounting. |
| (d) | Expenditure incurred of Rs. 6,000,000 for the preparation of plans for the construction of a new building instead of accounting as capital expenditure, it has been accounted as recurring expenses and therefore operating profit for the year has been understated. | Observations had been accepted. | Capital and recurrent expenditure should be accurately identified and accounted for. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.41,496,820 between the financial statements and the relevant documents related to 14 accounting subjects.	It was informed that the action will be taken to rectify the difference between the balances according to the financial statements and documents.	Action should be taken to rectify the accounts by identifying the differences.

1.7 Non- Compliances

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

The instances of non-compliances with Laws, Rules, Regulations and Management decisions were given below

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
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Paragraph 7.4(iv) of Circular No. 01/2010 of the Sabaragamuwa Local Government Reform Circular Guideline.	A sum of Rs. 930,000 allowances to 34 members for 62 days absenteeism to Sabha meeting in the year 2021 had been paid for non-medical reasons and on the reasons non-relevant for local government.	A notice has been given to honourable members to provide a medical report if they are sick while taking leave.	Work should be done as per the circular.

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 2021 amounted to Rs 36,951,441 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 31,999,942 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
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Rates		

Though the balance of rate tax due at the end of the year under review was Rs. 3,364,791 as per the financial statements and Rs. 4,240,890 according to the rating register. This consists of 83 rates units of the government sector and 175 private sector rates units. A sum of Rs. 2,321,699 was remained in that balance which cannot be certainly identified period.	The differences have been identified regarding outstanding balances so far up to 2014 and some number of field receipts of the revenue officers could not be found in searching from 2015 onwards and therefore action is being done to correct those balances	Action should be taken to recover the outstanding rates.

backward from the year 2018. At present, rates and acreage taxes are being collected correctly through new computer software and it was informed that action will be taken to look and do necessary in the future.

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.

Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
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<p>According to Sections 2.4, 2.5, 3.3 and 3.4 of the Circulars No. 01/2021 and 01/2012 of the Ministry of Finance dated 29th of September 2021 and 5th of January 2012 respectively. The relevant community based organization should not be engaged in more than 3 contracts at the time of awarding the contract and the relevant contract should be in the area of the society. In other cases, more than three contracts may be awarded with the approval of the District Secretary, but Warakapola Various Services Cooperative Society Limited had been given 74 contracts without obtaining such consent of total value of Rs. 27,633,656 in the year 2021. It was 49 per cent of the total contracts value of the contracted by the Sabha in the year 2021.</p>	<p>Provisions have been allocated for the completion of a large number of contracts in the year 2021 and Warakapola Various Services Cooperative Society Limited has been awarded contracts to complete those contracts as it was required to complete immediately. It was also informed that since it was a society formed to cover the entire Divisional Secretariat and therefore the relevant contracts have been awarded.</p>	<p>Work should be done as per the circular.</p>