

## **Chilaw 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 Chilaw Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, statement of changes in net assets and cash flow statement 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 Chilaw 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**

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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**

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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 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 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)**

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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 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

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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 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(i)(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 -----	Comment of the Sabha -----	Recommendation -----
(a) Although the fixed deposit balance of Rs. 45,203,262 at the beginning of the year under review had become Rs. 70,477,066 by the end of the year under review, the cash inflows and cash outflows for these fixed deposits had not been clearly stated in the cash flow statement under investing activities so as to separately identify them.	The differences of the fixed deposit balance are shown under investing activities in the cash flow statement and it is accepted that the schedules have not been presented for cash inflows and cash outflows.	Cash inflows and cash outflows should be separately presented in the cash flow statement.
(b) The total allocated amount of nearly Rs. 43 million, for which no work related to the budgeted item of expenditure for the relevant year has been started and the value of the work completed in the year 2021 that had not been recognized, had been shown as expenditure creditors as at the end of the year under review without identifying the specific creditors.	Four programmes out of these programmes have been started in 2021 and completed in the year 2022. Approval for the implementation of 04 programmes has been received and they are being implemented in the year 2022. Governor's approval has not been received for 04 programmes.	Action should be taken to account for only the expenditure and the creditors relating to the year under review.

### 1.6.2 Non-reconciled Control Accounts or Reports

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Audit Observation -----	Comment of the Sabha -----	Recommendation -----
In terms of financial statements, the value of Rs.528,999,787 related to 07 items of account was Rs.480,706,445 according to the corresponding reports. Accordingly, a difference of Rs.48,293,342 was observed between the account values.	It is accepted that the balances are not reconciled according to the balance of the financial statement and the corresponding reports and it is informed that if there are any omissions, they will be looked into and rectified.	Differences should be identified and accordingly, schedules and accounts should be rectified.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 124,403,348 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 73,355,184.

## 3. Operating Review

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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 Operating Inefficiencies

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Audit Observation	Comment of the Sabha	Recommendation
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<p>In leasing out Munneswaram Rest Hall for the period from 25 September 2010 to 24 September 2013, the lessee had defaulted the rent without being taken action according to the lease agreement reached and further rent of Rs.181,347 was to be received by the Sabha. The Sabha had failed to take legal action against the lessee during the validity period of the lease agreement that the Sabha had entered into with the relevant lessee. In this regard, despite the recommendation made by the Local Government Commissioner (North Western) in September 2021 to conduct a formal disciplinary inquiry against the officers concerned, the relevant disciplinary inquiry has not been completed even by August 2022.</p>	<p>It is kindly informed that a disciplinary investigation is currently underway against the relevant officers in charge of the subject and the officers concerned regarding the leasing out of the Munneswaram Rest Hall for the period 2010-2013.</p>	<p>Agreements reached by the Sabha should be duly valid and enforceable by law.</p>