

Puttalama Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Puttalama 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 Puttalama 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 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)

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(i)(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 -----
Even though the work done value of the year under review had not been calculated, contracted value of Rs. 8,583,061 relating to 16 industries had been brought to account as creditors.	It is informed that if there are any differences between these estimated amounts and actual work value, that difference will be considered as an estimate change and adjusted through the accumulated fund in the final accounts with retrospective effect.	Unpaid work done value and the bills in hand should be calculated and brought to account as creditors.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 33,139,101 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 11,079,130.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) <u>Rates and Taxes</u></p> <p>A sum of Rs.1,738,292 was due from 196 units related to the public sector and 2432 units related to the private sector as at 31 December of the year under review. An amount of Rs.349,000 had been recovered from 26 units related to the public sector and 2,602 units related to the private sector as at 31 August 2022, and an amount of Rs.403,449 had been identified as irrecoverable for 68 units related to the public sector. The remaining balance from 174 units related to the public sector and 2454 units related to the private sector was Rs.985,843.</p>	<p>Necessary arrangements are being made to collect the revenue in arrears by conducting mobile services.</p>	<p>Action should be taken to recover the revenue in arrears promptly.</p>
<p>(b) <u>Acreage Tax</u></p> <p>An arrears of acreage tax of Rs.800,591 were due from land owners in respect of 526 units as at 31 December of the year under review. An amount of Rs.21,026 of that sum had been recovered from 25 units as at 31 August 2022 and an amount of Rs.94,577 had been identified as irrecoverable from 40 units. The remaining balance from 461 units was Rs. 684,988.</p>	<p>It is informed that notifications have been sent to the land owners to recover the acreage tax.</p>	<p>Action should be taken to recover the revenue in arrears promptly.</p>
<p>(c) <u>Rent</u></p> <p>There was arrears of rent amounting to Rs.728,606 for 37 shops as at 31 December of the year under review. An amount of Rs.468,556 of the arrears had been recovered from 29 shops by 31 August 2022 and Rs.49,088 from 01 shops had been identified as irrecoverable. The remaining balance from 07 shops was Rs. 210,962.</p>	<p>It is informed that necessary steps are being taken to recover the rent income in arrears.</p>	