

Ayagama Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The Audit of the financial statements of the Ayagama 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, Cash flow statement for the year then ended 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 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 published 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 Ayagama 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 the 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 as management determine is necessary to enable the preparation of the financial statements that are free from material misstatements, 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 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 misstatements, 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 a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 procedure 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 discourses, 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 compiled 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 the 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

Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Even though, the capital revenue relating to the year under review amounted to Rs. 18,613,759 that had been brought to account as Rs. 34,201.746.	It has been informed, that it will be rectified in preparing final accounts in the year 2022.	The revenue relating to the year should be correctly identified and accounted for.
(b) The under provisions of the stamp fees as at the end of the year under review had been adjusted without being correctly identified. As such the balance of the arrears of stamp fees account had been over stated by Rs. 2,049,912.	It has been informed, that action will be taken to prepare accounts on accrual basis based on the annual estimate in preparing 2022 accounts.	The revenue relating to the year should be correctly identified and should be accounted on accurate basis.
(c) The arrears of lease rental revenue for the year 2020 amounting to Rs. 637,757 had been written off through aid, contribution, subsidy account. As such the recurrent expenditure for the year had been overstated by similar amount.	It has been informed, that the amount of Rs. 637,757 will be adjusted in preparing final account of the year 2022.	Should be accounted for by correct accounts.
(d) A road roller costing Rs. 540,000 had been disposed of during the year under review but a sum of Rs. 260,000 only had been brought to account as the cost of it.	It has been informed that adjustments will be made for the balance amount of Rs. 280,000 when preparing final accounts for the year 2022.	The correct value should be identified and accounted for.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 1,627,450 as compared with the excess of expenditure over recurrent revenue of the preceding year amounting to Rs.1,466,943.

2.2 Revenue Administration

Performance in Collection of Revenue

Audit Observation	Comments of the Council	Recommendation
Acreage Tax		
A sum of Rs. 164,542 from 277 acreage tax units had to be recovered by 17 August 2022.	It has been informed that, an acreage tax verification will be done by the field officers of the sabha and action will be taken to inform land owners by "K" forms and to minimize the arrears during the year 2022.	Revenue receivable should be identified and recovered in time.

3. Operating Review

The matters observed in respect of the activities that should be carried out by the Sabha such as regularize and control over the matters of public health, public utility services, thoroughfares and the comfort, facilities and well-being of the people under section 03 of the Pradeshiya Sabha Act are given below.

3.1 Operating inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In terms of the agreement dated 30 July 2019 it was informed that half of the total key money should be paid at the date of signing the agreement for the trade stalls of Agri Crop Marketing center and the balance amount should be paid within 06 months and finalized.	It has been informed that, action will be taken to inform the general meeting in respect of the lessees who defaulting key money and installment payments and will take a decision on the steps that can be taken in this regard.	The revenue due to the Sabha should be collected without delay.

Nevertheless, the Sabha had failed to recover the key money amounting to Rs. 470,000 relating to 03 trade stalls even by date of audit.

- (b) In terms of section 06 (iv) of the circular No 03/2020 dated 01 February 2021 of the Commissioner of Local Government in an event the monthly rental for the trade stall has not been paid for a continuous period of 03 months, the conditions such as the possession of the trade stall can be taken over by the Local Government body and can be re-tendered should be included in the agreement. However without being included such a condition the Sabha had failed to recover receivable trade stall rental amounting to Rs. 938,226 from 15 trade stalls for a period ranging from 02 months to 22 months even by the date of audit.

It has been informed that, action will be taken to include the conditions as per the circular for the respective agreements and action will be taken to recover outstanding amounts as part payments.

The revenue receivable to the Sabha should be recover in time.

3.2 Deficiencies in contract Administration

Audit Observation

A contract had been entered in to under a work value of Rs. 19,787,100 to construct a two storied trading complex on 29 July 2021 by utilizing a loan amounting to Rs. 17,748,000 obtained from Local loans Development Fund. There after the Pradeshiya Sabha had decided that the adjoining land instead of the proposed land was suitable for the project as per the Sabha

Comments of the Council

It has been informed that, even though it was shown that the Sabha has incurred a loss due to the change of the construction site, there has been no prejudice in the proper and effective placement of all the components as a small town of Ayagama which follows national policies and a new estimate has to be prepared based on the inflationary situation and the construction has been

Recommendation

The loans obtained should be used properly and efficiently.

decision dated 10 August 2021. Due to that the Contractor had mentioned that a sum more than estimated expenditure has to be incurred for the project and the respective work could not be completed by the due date of 31 July 2022 and he requested a new expenditure estimate and an extension period. Accordingly, by planning the project without specifying the construction site the objectives of obtaining the loan amount and the objectives of the project had been failed.

temporarily stopped.