

Udunuwara Pradeshiya Sabha – 2021

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Udunuwara Pradeshiya Sabha including the financial statements for the year ended 31st December 2021 comprising the statement of financial position as at 31st December 2021, Statement of Financial Operations 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 on these financial statements in accordance with the provision of sub-section 11(1) of the National Audit Act No;19 of 2018 contains in this report. The report which I consider should be submitted in accordance with Article 154(6) of the Constitution will be submitted to the Parliament in due course.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Udunuwara Pradeshiya Sabha as at 31st December 2021 and its financial performance for the year then ended in accordance Generally Accepted Accounting Practices.

1.2 Basis for Adverse Opinion

I expressed adverse 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 adverse 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) As per the requirement of section 6 (1)(d)(iv) of the National Audit Act, No.19 of 2018, the financial statements presented includes all the recommendations made by me in the previous year, except the audit matters described in paragraph 1.6.1(a) of this report.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

| Audit Observation | Comments of the Sabha | Recommendation |
|--|--|--|
| ----- | ----- | ----- |
| (a) The Rs.854,950 credit balance in suspense account indicated in paragraph 1.6.1(f) in my report on the financial statements relating to the previous year had not been corrected. | Action will be taken to correct. | Action should be taken to rectify the suspense account. |
| (b) Recurrent expenses of Rs.273,025 relating to the year under review were not shown in the financial statements under expenses and creditors for the year. | It had been Informed that it could not be accounted for due to an omission | Expense and Creditor balances should be accurately accounted for. |
| (c) Cost of Rs.1,949,046 incurred for building construction at the end of the year under review was not shown in the financial statements. | Part of this value is accounted for. | Building construction costs should be correctly accounted for. |
| (d) Creditors amounting to Rs.455,000 which had not actually been incurred at the end of the year under review were shown in the financial statements. | Provisions had been allocated under debtors and creditors, which was cash in hand. | Creditors should be properly identified and accounted for. |
| (e) Three wheeler license fee income of Rs.658,800 due at the end of the year under review had not been shown in the financial statements. | Action will be taken in future according to the council decision. | Three wheeler license fee incomes should be correctly accounted for. |
| (f) An income of Rs.672,000 due for billboards at the end of the year under review was not shown in the financial statements. | Accounting has been omitted and it has been informed that the arrears will be recovered. | Billboard income should be correctly accounted for. |

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| (g) | 07 projects of Rs.1,071,315 which were planned to be implemented by using council funds had been shown as creditors in the financial statements at the end of the year under review. | It had been shown as creditors on the basis of not providing bills for completed work, only contracts being drawn up. | Creditors balance shown in the financial statements should be correctly identified. |
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1.6.2 Unreconciled Control Accounts or Records

Audit Observation

At the end of the year under review, there was a difference of Rs.26,382,375 between the account balances shown in the financial statements and the balances in the source documents in relation to 10 account subjects.

Comments of the Sabha

Action will be taken to check the documentation and correct it.

Recommendation

The reasons for the differences should be identified and the correct value should be adjusted in the accounts.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation

Due to non-submission of board of survey reports and other schedules, 03 asset subjects of Rs.777,089 stated in the statement of financial position at the end of the reviewed year could not be satisfactorily verified in the audit.

Comments of the Sabha

Action will be taken to submit in the future.

Recommendation

The necessary schedules to verify the account balances should be maintained correctly.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules and Regulations

Followings are the instances where laws, rules and regulations were not complied with.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Comments of the Sabha | Recommendation |
|---|--|--|---|
| ----- | ----- | ----- | ----- |
| (a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| (i) Financial regulation 371 | During the year 2015, the interim advance of Rs.89,142, which was given to the officials on 05 occasions, was not settled by the end of the year under review. | The relevant officers have been informed in writing and action will be taken to recover the money. | Financial regulations should be followed. |

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| (ii) | Financial regulation 571 | No action was taken regarding the Various deposits amounting to Rs.743,445 were deposited in 142 cases from the year 1994 to the year 2019, which expired at the end of the year under review. | It will be checked again and complied with financial Regulation 571 | Financial regulations should be followed. |
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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 31st December 2021 amounted to Rs.41,643,798 as compared with the excess of revenue over recurrent expenditure amounted to Rs.21,313,313 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

| Audit Observation | Comments of the Sabha | Recommendation |
|---|---|--|
| ----- | ----- | ----- |
| (a) Rates | | |
| <p>During the period from the year 2011 to the year 2015, there was a financial irregularity in the collection of assessment revenue, and further facts related to that financial irregularity were revealed in the field. In the preliminary and final investigations related to this, it was concluded that an outstanding assessment balance of Rs.1,028,451 should be collected, and a new account balance was shown in the financial statements at the end of the 2018 accounting year as "Assessment fraud account to be collected". Even though more than 04 years had passed from the year 2018 to the end of the year under review, these assessments had not been collected; as a result, it was not possible to be satisfied in the audit about the accuracy of the outstanding assessment balance of Rs.32,120,181 shown in the financial statements as at the end of the year under review. Also, in that balance, arrears of assessment tax of Rs.8,343,921 to be collected in relation to 521 properties where the arrears per unit exceeded Rs.10,000 was also included</p> | <p>The assessment data system and account have been rectified</p> | <p>Actions should be taken to recover the amount mentioned as assessment tax fraud and to recover the arrears of assessment tax.</p> |

(b) Other income**i. Billboard charges**

At the end of the year under review, Rs.672,000 dues related to 400 billboards installed in the council area had not been collected, and the balance included Rs.198,400 dues from 13 billboards with arrears of more than Rs.10,000 per board.

It had been informed that due to the Corona epidemic situation in the country, the payments have been delayed and Revenue inspectors were informed to collect them immediately.

Arrears of Billboard charges should be recovered.

ii. Three wheeler license fees

Three wheeler license fees of Rs.658,000 due at the end of the year under review had not been collected.

Payments and collections have been delayed due to the epidemic situation in the country.

Arrears of Three wheeler license fees should be collected.

2.3 Surcharge**Audit Observation**

According to the provisions of the Pradeshiya Sabha Act, two surcharges of Rs.1,161,311 were levied by me against those responsible in the previous year, and an amount of Rs.1,085,636 was to be collected by the end of the year under review.

Comments of the Sabha

It is informed that the collection has been delayed due to the non-receipt of the results of the appeal investigation.

Recommendation

The relevant amount should be collected as per the surcharge certificates.

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 03 of the Pradeshiya Sabha Act are shown below.

3.1 **Idle or underutilized Property, Plant and Equipment**

Audit Observation

A stock of 2,081 items of tube well accessories worth Rs.361,398 in the council's warehouse remained idle for over 04 years.

Comments of the Sabha

It has been informed that it will be submitted for the board of survey in the year 2022 and necessary further action will be taken.

Recommendation

Accessories in the store should be utilized effectively

3.2 **Human Resources Management**

Audit Observation

(a) **Employee Loans**

According to Chapter XXIV, Section 4:2:4 of the Code of establishment of the Democratic Socialist Republic of Sri Lanka, the payment of employee loan of Rs.116,303 due from 10 retired, suspended and deceased employees has been in arrears for more than a year.

Comments of the Sabha

It has been informed that the information will be investigated and necessary action will be taken

Recommendation

Employee loans due to the council should be collected.

(b) **Check of payment of wages for employees recruited on contract basis**

According to Section 10(1)(2) of the Declaration of Incorporation, Including the amendments made to the Employees' Provident Fund Act No.15 of 1958 up to December 31, 1998 and in terms of Section 16(1) of Part Two of the Employees' Trust Fund Act No.46 of 1980, the contributions of Rs.815,489 to be paid for the employees who were hired on contract basis for the period from March 2020 to November 2021 had not been paid.

Since they have recruited on a daily basis, the contributions have not been paid and action will be taken to correct.

Contributions should be paid as per the provisions of the relevant Acts and circulars.

3.3 **Management of Vehicle fleet**

Audit Observation

At the end of the year under review, 08 pool vehicles worth Rs.5,289,600 had not been used for more than 02 years.

Comments of the Sabha

That, Actions are being taken to repair and dispose.

Recommendation

Vehicles that need to be disposed should be disposed.