

## **Polpithigama 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 Polpithigama 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, 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 Polpithigama 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 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 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) Since the expenditure incurred on the development of buildings during the year under review had not been capitalized, the fixed deposit assets account and the revenue contribution to capital input account had been understated by Rs. 14,129,781.	Action will be taken to correct this in the ensuing year.	The expenditure on building development should be capitalized.
(b) A balance of lands and buildings worth Rs. 569,473 and furniture worth Rs. 935,607 that had not been physically identified had been brought to account under the non-current assets.	These assets cannot be specifically identified and action is being taken to seek instructions of the Commissioner of Local Government to write off the said 02 amounts.	Accuracy should be ensured in accounting.
(c) Nine fixed assets worth Rs. 499,315 purchased during the year under review had not been brought to account.	Action will be taken to account for the deficits by journal entries.	
(d) Provisions for audit fees amounting to Rs. 160,800 relatd to the year under review had not been made in the accounts	Provisions for the audit fees will be made in the accounts in the future.	

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 945,831 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 5,656,231.

### 2.2 Surcharges

Audit Observation	Comment of the Sabha	Recommendation
Although an amount of Rs. 1,283,910 was to be recovered for 04 surcharges imposed by me against the responsible persons in the previous years as per the provisions of the Pradeshiya Sabha Act, 17 persons subjected to the surcharge have made appeals to the Ministry of Local Government. A report has been requested either to release them or to reject the appeal and it is in progress at present.	It is informed that the relevant money has not been paid and the persons subjected to the surcharges have made appeals.	Money should be recovered for the surcharge certificates related to the preceding years.

## 03. Operating Review

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 Uneconomic Transactions

Audit Observation	Comment of the Sabha	Recommendation
(a) In the year 2016, 120 water tanks with the capacity of 2,000 liters and 02 truck bowsers with the capacity of 6,200 liters had been provided to Polpithigama Pradeshiya Sabha by the Puraneguma project. Although water tanks had been established under this project, water had not been supplied to those tanks and	These tanks have been established by the Puraneguma project. Although these water tanks were provided in June 2017, delivery of Bowser tanks for water distribution took place on 12 May 2021. Since the distribution of drinking water from the Deduruoya Project has already been initiated, this	A project should be implemented in planned manner and the installed water tank should be used.

it was observed that the project remained unsuccessful.

project has become unsuccessful.

- (b) At least a single bus had not been parked in the bus stand worth Rs. 21,140,000 which had been built in Polpithigama town and handed over to the Sabha on 26 July 2021. When there is no situation to be seen that such income can be earned through buses in the future according to the location of this bus station, orders had been placed to print 10 bill books at Rs.330 each.

Subsequent to the conduct of discussions with the relevant institutions with regard to the commencement of operations of the bus stand which was nationalized on 26 July 2021, as it was agreed to initiate the operations of the bus stand, action was taken to print bills in order to recover the charges from the busses.

Action should be taken to utilize the bus stand.

## 3.2 Procurements

### 3.2.1 Deficiencies of the Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
<p>Having signed a contract for a sum of Rs. 4,794,393 with a contractor for the repair of the Polpithigama Public Stadium, the work had been completed. Although a 320-meter long drain had been constructed around the stadium, water retained in one part of the drain due not constructing about 100 meters long section. Similarly, according to the work item No.04, laying of gravel had been stated as 636.99 cubic meters, whereas it was observed as 559.99 cubic meters according to the physical inspection conducted. Accordingly, a shortfall of laying of 80 cubic meters of gravel was observed and Rs.88,000 had been overpaid for 80 cubic meters of gravel at Rs.1,100 per one cubic meter. Although the stadium had been developed at a cost of Rs.4,794,393, no income whatsoever had been earned from renting this stadium during the year under review. Since the frequency of using the stadium for events including sports competitions annually was at a minimum level, the benefit that could be obtained from the development of the stadium remained at a minimum level.</p>	<p>The actually supplied quantity of ravel was applied. Nevertheless, due to a difference in the measurement of laying gravel, action will be taken to lay gravel to fill the gaps as indicated in the laying measurements before making the final payment since the final payment has not yet been made.</p>	<p>Over payments should be recovered.</p>