

Wennappuwa Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Wennappuwa 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 Wennappuwa 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
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(a)	The value of 12 industries completed in the year under review amounting to Rs.5,590,021 was not capitalized.	It is informed that adjustments will be made by journal entries.	The expenditure incurred on industries should be capitalized.
(b)	Nine lands worth Rs. 702,515, five (05) lands of unstated value and one land received as a grant had not been documented in the year under review and the value of the assets with recognized value had not been brought to account.	It is informed that action will be taken to adjust the assets in the accounts of the year 2022.	Accuracy should be ensured in accounting.
(c)	The property tax income of Rs.445,360 deposited in the deposit account in relation to the year under review had not been brought to account as income of the year under review.	It is informed that action will be taken to credit these types of value directly to the revenue.	Accuracy should be ensured in accounting.
(d)	The Sabha had not made disclosures in relation to the 31 cases filed regarding the acquisition of lands and the defaulters of licence fees in the financial statements.	It is informed that these types of cases will be disclosed under the contingent liabilities in the future.	Action should be taken to make disclosures in the financial statements.
(e)	The market value of the plots of land received as deeds of gift to the Sabha and 02 plots of public	It is informed that at least a temporary assessment of such lands will be obtained and	Accuracy should be ensured in accounting.

land assigned by the auction companies in relation to land subdivision had not been assessed and brought to account.. adjustments will be made to the accounts in the future.

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| (f) | Only the balances of Rs.808,112 held in 02 dormant bank accounts of the Sabha in the Bank of Ceylon account as at 31 December of the year under review had been disclosed in the financial statements and it had not been brought to account. | It is informed that action will be taken to adjust these values to the Sabha Fund and shown in the reports. | Accuracy should be ensured in accounting. |
| (g) | In the Rs.18,162,505 brought to account as assessment billings in the year under review, several other types of income amounting to Rs.7,353,799 had been included. | It is informed that action will be taken to state these revenue heads separately. | Action should be taken to correctly identify and account for the revenue heads. |

1.6.2 Unauthorized Transactions

Audit Observation	Comment of the Sabha	REcommendation
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<p>The money collected by receipts in the name of the Sabha from 750 children belonging to 15 pre-schools managed by the Sabha and deposited in the bank accounts by December 2021 was Rs. 6,695,197. The money received from the receipts issued using the name of the Sabha without the approval of the Sabha had been deposited in the bank accounts opened in the name of the pre-schools as per the minutes of the pre-school development society and expenses had been incurred on various occasions. Accounts related to those expenses had not been presented to the Sabha and there was no reference to the presentation of the accounts to the Sabha according to the instructions paper of the Local Government Commissioner. Further, those accounts had not been audited. Furthermore, according to the accounts presented by the Sabha in relation to the year under review, an amount of Rs. 13,698,856 had been spent from the Sabha fund for pre-schools.</p>	<p>It is informed that a formal internal control system will be established to regulate the transactions of the accounts.</p>	<p>Revenue should be disclosed in the financial statements and accounts pertaining to the expenditure should be presented to the Sabha.</p>

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. 80,947,611 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 94,011,251.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation -----	Comment of the Sabha -----	Recommen- dation -----
<p>(a) Rates and Taxes -----</p> <p>Rates of Rs. 8,791,104 was due from 3949 assessment units related to the private sector as at 31 December of the year under review. Out of that amount, Rs.2,332,227 had been recovered from 794 units by 31 August 2022 and Rs.508,955 had been written off from 208 units on the approval of the Governor.</p>	<p>It is informed that action will be taken to recover the arrears of income including Rates by implementing mobile programmes.</p>	<p>Expeditious action should be taken to recover the revenue in arrears.</p>
<p>(b) Business Tax -----</p> <p>Business tax of Rs.119,400 was due from 39 units as at 31 December of the year under review. Out of that amount, Rs.3,000 had been recovered from 01 unit by 31 August 2022 and the remaining balance from 38 units, a sum of Rs.116,400 could have been recovered.</p>		

(c) **Shop Rent**

Shop rent of Rs. 4,328,150 was due from 165 shops as at 31 December of the year under review. By 31 August 2022, a sum of Rs. 1,802,015 had been recovered from 76 of those shops and Rs. 1,021,195 from 16 shops had been written off on the approval of the Governor

Action will be taken to recover the arrears or initiate legal action regarding the balances which are unable to recover. Expeditious action should be taken to recover the revenue in arrears.

(d) **Lease Rent**

Lease rent of Rs. 2,731,160 was due from 56 units as at 31 December of the year under review. A sum of Rs. 851,918 had been recovered from 12 of those units by 31 August and Rs. 421,878 from 24 units had been written off on the approval of the Governor.