

Lankapura Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lankapura Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of assets and liabilities as at 31 December 2021, Comprehensive Income Statement, Statement of changes in net assets/ equity, Cash Flow Statement 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 which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Lankapura Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 Sri Lanka Public Sector Accounting Standards, 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) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Non-compliance with Generally Accepted Accounting Standards

Audit Observation	Comments of the Council	Recommendation
(a) As per EG 10.1 of Appendix 2 presented with the Sri Lankan Public Sector Accounting Standards for Local Governments, while accounting for assets under construction, the accounts should be based on the percentage of completion at the end of the year, but the value of buildings under construction and the value of roads, culverts and bridges were accounted for on the basis of the contract value irrespective of the output percentage during the year under review and therefore the value of 11 buildings was overstated by Rs.43,768,010 and the value of roads, culverts and bridges was overstated by Rs.1,503,301 in the accounts.	Agree.	Accounting should be done as per the standards.

(b) As per EG 2.7 of Appendix 2 presented with the Sri Lankan Public Sector Accounting Standards for Local Governments, although the relevant asset account or expense account should be debited and the payment account should be credited and depreciation should be recognized in the comprehensive income statement on a calculated basis in case of payment of capital expenditure grant, since the capital expenditure grants identified in the surplus/deficit for the year 2021 were not identified and accounted for according to the percentage of depreciation relating to that asset, an excess amount of Rs.1,419,651 had been recognized as capital expenditure grants, and accordingly the amount of revenue was understated.

Accounting should be done as per the standards.

1.6.2 Accounting Policies

Audit Observation

Although it has been stated that according to Accounting Policy No. 3.5 included in the financial statements for the year ending 31 December 2021, depreciation of property, plant and equipment has been done on the basis of the percentages mentioned in the diminishing balance method over the life of an asset, in calculating the annual depreciation value of Rs. 29,556,148, it was depreciated outside of the above method.

Comments of the Council

Agree. Although under the diminishing balance method, the annual depreciation rate should be calculated on the cost of the asset, but the depreciation value has changed due to the use of the opening balance in the year 2021.

Recommendation

Accounting should be done as per the standards.

1.6.3 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The value of roads, culverts and bridges as at 31 December of the year under review was overstated by Rs.999,521 due to the accounting of the value of two cancelled projects.	Agree.	Accounting should be done as per the standards.
(b) The work in progress value of Rs.1,156,153 and the completed roads, culverts and bridges value of Rs.492,762 of the projects implemented for the year 2021 had been omitted from the financial statements.	Agree.	Fixed assets for the year under review should be identified and accounted for on completion basis.
(c) The capital expenditure grant balance which was not included in surplus or deficit in the statement of changes in net assets/equity as on 31 December 2021, was shown as Rs.82,123,780, but the actual value should be Rs.126,709,351, therefore it was understated by Rs.44,585,570. The amount of unrecognized development expenses was overstated in the statement of assets and liabilities by the same amount, as on 31 December 2021 and other comprehensive income was understated in the statement of comprehensive income.	Agree.	Capital expenditure grant for the year under review should be correctly recognized in the financial statements.
(d) During the inspection of the stock records relating to 31 December of the year under review, a stock value of Rs.417,879 was not included in the schedules submitted with the financial statements, and accordingly the stock was understated by Rs.417,879.	Agree.	Documents should be updated and correct values should be accounted for.
(e) In the presented cash flow statement, the value of cash and cash equivalents as on 31 December 2021 was overstated by Rs.5,599,613.	Agree.	The correct value should be identified and accounted for.

1.6.4 Unreconciled Control Accounts and Records

Audit Observation

Comments of the Council

Recommendation

According to the submitted financial statements and corresponding reports, there was a discrepancy of Rs. 722,617 in the value of 06 accounting subjects.

Action will be taken to rectify.

Correct values should be accounted for by comparing corresponding records.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 7,524,216 as compared with the excess of expenditure over recurrent revenue amounted to Rs. 13,751,417 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation

Comments of the Council

Recommendation

Rent

The property leases owned by the council for the period 2003-2014 as stated in the financial statements of the year under review, the rents of Rs.1,785,816 due from 27 units remained unpaid for more than 10 years as of 01 October 2022 and no legal action was taken to recover these rents.

Necessary arrangements are being made to collect the arrears due to the local council.

Arrangements should be made to settle the arrears of income.