

## **Kirinda Puhulwella Pradeshiya Sabha - 2020**

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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 Kirinda puhulwella Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, Statement of Changing 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 the 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 Kirinda puhulwella Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified 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 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 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)**

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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 exercised professional judgment and maintain professional skepticism 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 Municipal council/ Urban council/ Pradeshiya Sabha (As applicable) 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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The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements

## 1.6 Audit observations regarding 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) The Seva Piyasa building valued at Rs. 1,985,965 was handed over to the sabha by the Kirinda Puhulwella Divisional Secretariat during the year under review. That building was not accounted under Land and Buildings.	That will be corrected in the preparation of the final accounts for the year 2021.	Account should be done correctly.
(b) Rs. 1,495,915 had not been capitalized on the development of lands and buildings owned by the Council during the year under review.	That will be corrected in the preparation of the final accounts for the year 2021.	Account should be done correctly.
(c) The Kirinda Puhulwella Stadium, which was constructed in 2015 at a cost of Rs. 2,823,028 had not been accounted under Lands and Buildings even up to the year under review.	} Actions will be taken to correct in next year.	Account should be done correctly.
(d) The provisions had been made twice for the audit fees amounting to Rs. 150,000 for year under review.		

- (e) An amount of Rs. 413,004 due to the construction industry implemented during the year under review had not been provided provision under the Industrial Creditors.

### 1.6.2 Un reconciled control account or records

#### Audit Observation

There was a difference sum of Rs. 21,457 in between a balance of Rs. 5,914,149 in the value of 05 accounting items in the financial statements and value of Rs. 5,935,606 in relevant utility registers/sub registers

#### Comment of the Sabha

Will be corrected in the future years.

#### Recommendation

Action should be taken to correct the accounts by comparing the changes in the relevant balances.

### 1.6.3 Lack of Documentary evidence for Audit

#### Audit Observation

Due to non-submission of required information, two accounting items amounting to Rs. 663,623 could not be satisfactorily examined during the audit.

#### Comment of the Sabha

Will be corrected in the next year.

#### Recommendation

Evidence confirming the account balance shown in the financial statements should be submitted.

## 2. Financial review

### 2.1 Financial result

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 3,866,801 as compared with against the revenue over recurrent expenditure amounted to Rs. 1,429,138 in the preceding year.

### 2.2 Performance of Revenue Collections

#### Audit Observation

- (a) There was an arrears of assessment tax balance of Rs.763,075 as at the end of the year under review

#### Comment of the Sabha

The action will be taken to recover arrears of assessment tax in the future.

#### Recommendation

Arrears of revenue should be collected promptly.

(b)	There was an arrears of Rent balance of Rs. 333,934 as at the end of the year under review	The remaining arrears will be recovered by 2021.	Arrears of revenue should be collected promptly
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### 3. Operational Review

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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 3 of the Pradeshiya Sabha Act are shown below.

#### 3.1 Management Inefficiencies

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##### Audit Observation

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Although 165 building development licenses have been approved by the Council from the year 2015 up to the year under review, only 18 have been issued certificates of conformity. Accordingly, in terms of Section 10 (6) of the Urban Development Authority Act No. 14 of 1978, the building permit could only be extended for two years, but no supervision was carried out after the building development permit was approved. Accordingly, legalization, demolition and removal actions had not taken place.

##### Comment of the Sabha

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Applicants who have completed the deadline have been informed to obtain Certificates of Conformity and will act in accordance with the Urban Development Authority Act in future.

##### Recommendation

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Action should be taken in accordance with the Act.

#### 3.2 Operational Inefficiencies

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##### Audit Observation

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According to the Gazette Notification No. 1533/16 dated 25 January 2008, the Pradeshiya Sabha had to issue environmental License for 25 industries and 20 businesses had not obtained environmental protection licenses and the license fee amounting to Rs. 88,000 to be recovered.

##### Comment of the Sabha

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Needed Legal actions will be taken.

##### Recommendation

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Action should be taken to issue environmental protection licenses.