

Kalpitiya Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalpitiya Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial operations and the statement of changes in net assets for the year then ended and 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 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 Kalpitiya Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 (SLAuS). 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 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 (Responsibilities of Auditors 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 exercise 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, 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 Other Legal Requirements relating to Reports

Special provision with regard to the following were included in the National Audit Act No. 19 of 2018.

- The financial statements of the Pradeshiya Sabha were similar to the previous year as per the requirement pointed out in Section 6(1)(d)(III) of the National Audit Act No. 19 of 2018.
- Recommendations made by me during the previous year were included in the financial statements presented in terms of requirements pointed out in Section 6(I) (d) (IV) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations relating to Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) A water bowser valued at Rs.106,000 included in the Register of Fixed Assets that was proposed for disposal, had not been shown in the financial statements.	I accept it. I will take action to include in the accounts for the year 2021.	The relevant value should be shown in the financial statements.
(b) The debtors balance pointed out in the accounts as at 31 December 2020 had been understated by Rs.82,176	I accepted it. I will take action to rectify it when preparing accounts for the year 2021.	The correctness should be confirmed when taking the account balances to the financial statements.
(c) Land and buildings valued at Rs.6,375,200 included in the Register of Fixed Assets had not been brought to the financial statements.	I accepted it. I will take action to rectify it when preparing accounts for the year 2021.	The relevant value should be shown in the financial statements.
(d) A sum of Rs.1,028,100 recovered by the Sabha as 1 per cent tax when selling land by making allotment, had been retained in the deposits account without taking into revenue.	I accept it. I will take action to credit to the revenue account.	Revenue for the year should be correctly identified.

1.6.2 Unreconciled Control Account or Records

Audit Observations	Comments of the Sabha	Recommendation
There was a difference aggregating Rs.14,231 between the balances according to the financial statements and balances according to subsidiary reports relating to 03 items of accounts.	I will take action in future to rectify it.	Action should be taken to rectify the difference.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
It was unable to satisfactory check in audit 03 items of accounts aggregating Rs.789,395,235 due to non-submission of required information.	I will take action to obtain deed of transfer and confirmation of balances and submit to audit.	Documentary evidence confirming the account balances shown in the financial statements should be submitted.

1.7 Non-compliance

1.7.1 Non-compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Comments of the Sabha	Recommendation
Paragraph 1.1 of the Budgetary Circular No. 118 dated 11/10/2004	The total balance of the staff loan advances to be recovered as at 31 December of the year under review amounted to Rs.7,028,139 and out of this, loan balances amounting to Rs.119,763 to be recovered from 54 employees who were retired, went on vacation of post and deceased, had remained for more than 05 years and action had not been taken to recover it.	It was informed in writing. I inform you that there were difficulties for recoveries on the basis of non-availability of any surety reports for the loan amount obtained by the persons who had passed away at present.	Action should be taken to expedite the recovery of outstanding employees loan.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.14,755,273 as compared with the excess of revenue over recurrent expenditure of the previous year amounted to Rs.26,362,687.

2.2 Revenue Administration

2.2.1 Performance of the Collection of Revenue

Audit Observations	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
(i) Action had not been taken to recover the arrears of rates and taxes as at the end of the year under review amounting to Rs.11,851,320	It was planned to recover 50 per cent of the arrears amount within the year.	Action should be taken to expedite the recovery of tax dues.
(ii) Rates and taxes are recovered by the Pradeshiya Sabha within the Kalpitiya town limit only and action had not been taken to assess the properties in other developed cities and properties at both sides of the main roads and recover the rates and taxes.	Preparation of maps through GPS technology for 06 new tax divisions and obtaining necessary details were completed and action is being taken for publishing it in the Gazette.	Action should be taken to recover the rates and taxes after making assessment of properties at the developed cities and both sides of the main roads.
(b) Acreage Tax		
Lands on which acreage tax to be recovered had not been identified by carrying out a survey. Adequate action had not been taken to recover the acreage tax amounting Rs.945,585 remained arrears as at 31December of the year under review.	I will take action to recover the amount of tax dues after correctly identifying lessee.	Action should be taken to expedite the recovery of tax dues.

(c) Water Tax

Action had not been taken to recover the water tax dues as at 31 December of the year under review amounting to Rs.393,584

Letters were sent requesting to pay the amount of tax arrears and I inform you that taxes are being recovered partially from them.

Action should be taken to expedite the recovery of tax dues.

(d) Rent

(i) Arrears of stall rent and lease rent as at 31 December of the year under review amounted to Rs.7,218,776 and action had not been taken to renew the agreement period of 134 stalls.

There were difficulties to find out information relating to persons who had to pay these tax dues. The letter of demand had been issued to recover the arrears relating to other stalls.

Action should be taken to expedite the recovery of arrears of lease rent.

(ii) Measures had not been taken to recover a sum of Rs.4,617,535 to be recovered from leasing beef stalls and properties or to take legal action against the persons who have failed to pay the payments.

It was decided to collect the relevant report through the Revenue Examiners and submit it to the next general meeting to take decisions relating to write off.

Legal action should be taken relating to officers who have not taken action to recover within the year for rent billed during the year and relating to individuals who have not paid rent.

(e) License Fees

Even though a sum of Rs.847,918 had been recovered from the hotels registered in the Tourist Board as 01 per cent fees based on the income of the previous year in terms of provision of Section 149 of the Pradeshiya Sabha Act No. 15 of 1987, those recoveries had not been made on the basis of actual income confirmed by the audited reports.

I will take action in future to recover fees from these hotels after obtaining accounting reports prepared by a Chartered Institute.

License fees should be recovered based on the actual income confirmed by the audited reports.

3. Operating Review

Matters observed with regard to fulfilling regulation and administration of facts relating to public health, public utility services and public road, with the protection comfort, convenience and welfare of the people, by the Sabha under Section 3 of the Pradeshiya Sabha Act, are shown below.

3.1 Management Inefficiencies

Audit Observations	Comments of the Sabha	Recommendation
Action had not been taken to recover a sum of Rs.70,250 that could be recovered by the Pradeshiya Sabha through 29 displaying bill boards.	Letters were sent to the relevant institutions and individuals and charges are being recovered at present.	Action should be taken to recover the fees.

3.2 Operating Review

Audit Observations	Comments of the Sabha	Recommendation
(a) A sum of Rs.59,848 had been overpaid to the contractor while carrying out the construction works of Kandakuliya North Sports Hall due to not making measurement properly.	I inform you that instructions were given to the relevant officers to deduct the amount overpaid from the retention money.	Legal action should be taken against the officers who acted irresponsibility and the amount overpaid should be recovered.
(b) A sum of Rs.967,800 at the rate of Rs.100 per vehicle had been recovered and brought to the income of the Sabha by pesticing vehicles entering into the Kalpitiya Peninsula without utilizing the approved forms while implementing the pesticing Programme in order to avoid spreading of corona epidemic in the Kalpitiya peninsula.	I inform you that it was practically difficult for issuing acknowledgment receipt by utilizing carbon paper for P.S.I bills consisting of 4 copies due to heavy vehicle conjunction and as such the acknowledgment receipt were issued in the printed ronio sheets.	The general receipt of the Sabha should be utilized for recovery of cash and action should be taken in accordance with the existing rules and regulations.
(c) Even though the Sabha is having necessary resources to develop roads by applying gravels, opportunities were	I inform you that contracts were given to the relevant approved societies to develop the	The funds should be utilized in the manner of giving benefit to the Sabha.

given to the contractors to accomplish development project at the value of Rs.3,244,255 based on the decision of the Sabha.

roads on the basis of obstacles for implementation due to the corona epidemic.

- (d) Information with regard to 219 flag poles valued at Rs.280,594 out of 464 flag poles provided by the Ministry of Provincial Councils and Local Government were not made available at the Sabha and a Board of Investigation had not been appointed in this regard or any action had not been taken.

I inform you that action will be taken to recover an amount including the value of lost flag poles and 25% Government fees.

Legal action should be taken.