

Karuwalagasweva Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karuwalagasweva 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 Karuwalagasweva 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 Observations	Comments of the Sabha	Recommendation
(a) Machineries and equipment at the total value of Rs.128,545 had not been accounted under the fixed assets.	I will take action in the year 2021 to account under the fixed assets.	Action should be taken to identify the expenditure in capital nature correctly and bring to account.
(b) Even though funds were not received from the Ministry of Provincial Councils and Local Government for obtaining computers and accessories wanted to the Sabha and cash had not been paid to the suppliers, Rs.501,000 and Rs.501,000 respectively had been accounted under the capital expenditure and capital receipts in the cash flow statement.	It was mistakenly shown in the cash flow statements.	Cash transactions only should be shown in the cash flow statements.

(c) A loan amounting to Rs.2,632,219 payable in the next year out of the loan amount obtained from the Local Loan and Development Fund for two water supply projects, had not been shown under the current liabilities on the front of the Balance Sheet.	Loan obtained from the Local Loan and Development Fund was shown as current liabilities in accordance with the Rules of the Pradeshiya Sabha.	Preparation of financial statements according to the Generally Accepted Accounting Principles is the most suitable practice.
(d) Action had not been taken to assess the value and extent of land on which the community hall situated and 66 cemeteries, and bring to the account.	Action will be taken to assess the value by the Board of Valuation and bring to the account.	All the assets belonging to the Sabha and all the properties utilized by the Sabha should be assessed by the Board of Valuation and brought to account.

1.6.2 Lack of Documentary Evidence for Audit

Audit Observations	Comments of the Sabha	Recommendation
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Evidence relating to 05 items of accounts at the total value of Rs.7,086,398 had not been submitted for audit.	Those evidence were entered in the final accounts since prior to 10 years and it was unable to find the documentary evidence.	Documentary evidence and relevant documents confirming the account balances shown in the financial statements should be presented.

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.4,493,700 as compared with the excess of revenue over recurrent expenditure of the previous year amounted to Rs.1,112,273.

2.2 Revenue Administration

2.2.1 Performance of the Collection of Revenue

Audit Observations	Comments of the Sabha	Recommendation
(a) Rates and Water Taxes		
Action had not been taken to recover a sum Rs.745,697 being the balance of arrears of rates and water tax.	I inform you that action will be taken in future to recover the balance of arrears.	Action should be taken to recover the rates within the year for that billed during the year.
(b) Rent		
Action had not been taken to recover a sum of Rs.305,716 being the balance of arrears of stall rent and lease rent.	I inform you that action will be taken in future to recover the balance of arrears.	Action should be taken to recover the stall rent and lease rent within the year for that billed during the year.

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
(a) Thirteen stalls situated at the Saliyaweva Bus Stand and 17 th mile post Multipurpose Building were closed since year 2018. Stall rent and electricity charges amounting to Rs.406,196 remained arrears as at 30 November 2020 had to be recovered from the lessee due to nonpayment of stall rent and electricity charges properly.	Action is being taken against 08 lessees. Since those lessees had requested the Court to provide concessionary period to pay the dues, the case was postponed by the court.	Action should be taken to recover the dues of rentals and electricity charges from the lessees by expediting the activities of filing cases.

(b) Amount receivable from year 2017 to year 2020 for renting out of backhoe loader, motor grader and water bowser was Rs. 400,365.

Action will be taken in future to recover the dues and it was prepared to refer it to the Board of Reconciliation.

Action should be taken to expedite the recovery of rentals. Action should be taken to obtain adequate security deposit while providing the relevant services.