

Karainagar Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karainagar Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021, Income and Expenditure Account, 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. 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 financial statements give a true and fair view of the financial position of the Karainagar Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2. Basis for Qualified Opinion

I expressed qualified opinion 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 Practices, 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 include 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 described 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 Accounting Deficiencies

Following observations are made.

Audit Observation	Comments of the Council	Recommendation
(a) Even though the items for assembling street lamps had not been received up to date of this report, the paid payment vouchers had been prepared for Rs. 585,820 in the year 2020 and included as payable in the sundry creditors account. Thus indicating while current liabilities had been overstated and accumulated fund had been understated by Rs. 585,820 in the balance sheets.	It had been allocated to the sundry creditors account subject to the expectation of calling tender for this budgeted works of 2020 due to the insufficiency of stocks from the suppliers in the areas of Jaffna District and delays and restrictions occurred for unavailability of supply in the market due to COVID-19 pandemic situation.	Payments should be made after confirmed the completion of transactions and the specified errors should be rectified.
(b) Land of Palavodai Cemetery Booja Hall valued to Rs. 75,000 had not been shown in the accounts for the year under review, thus indicating the value of the non-current assets and capital reserve for capital expenditures had been understated in the balance sheet.	Value of Palavodai Cemetery Booja Hall Rs. 75,000 had not been shown in the accounts mistakenly, will be shown in the accounts for the year 2022.	Action should be taken to confirm the accuracy of the value of assets shown in the accounts and the errors should be rectified.
(c) Value of 19 Land and Buildings had not been valued and brought to the financial statements, thus indicating the value of the non-current assets and capital reserve for capital expenditures had been understated.	Even though the title deeds for those 19 Land and buildings had been made available, the survey plans which is essential to be placed for the department of valuation. Therefore, the value of 19 properties had not been assessed due insufficient financial facilities for surveying, action is being taken to value those step by step.	Action should be taken to confirm the accuracy of the value of assets shown in the accounts and the errors should be rectified.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
It had been observed in audit that a difference of balance of council's officers Security bond of Rs. 45,000 shown in the officer's security bond ledger and in the financial statements for the year under review.	Action will be taken to settle by the journal entry for the difference of balance of officer's security bond shown in the ledger balance and financial statements in 2022.	Accuracy of the value shown in the documents should be confirmed and the specified errors should be rectified in the documents.

1.6.3 Documentary Evidences not made available for Audit

All observations related to documentary evidences not maintaining by the organization or not provided to audit be shown under this heading. Eg. System not available to maintain proper records, poor system.

Subject	Amount	Unsubscribed Audit evidences	Comments of the Council	Recommendation
Rs.				
Lands.	25,064,545	Title deeds	Action is being taken now to obtain the evidences to confirm the ownership belonging to the council.	Action should be taken to submit the related audit evidences for the specified matter and to be confirmed proper maintenance of the audit evidences pertaining to the activities of the council.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

All observations related to non-compliances with Laws, Rules, Regulations and Management decisions etc. be shown under this heading.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulations of Democratic Socialist Republic of Sri Lanka. - 371	Action had not been taken pertaining to the Advances of Rs. 29,440 paid over 02 years by the council.	Even though this advance payment had been made from council fund for the National works of Strengthening of	Action should be expedited regards with specified works and deposit in terms of provisions laid down in the financial regulations.

Pradeshiya Sabhas - 2017, had not been settled due to the fund had not been received so far. Therefore, a letter had been forwarded to Hon. Governor to settle the advance of Rs. 29,440 paid from the council fund.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.12,006,641 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 6,636,549 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the council	Recommendation
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Action had not been taken to recover the rate and tax on Land, houses, buildings and buildings constructed belonging to the places vested for pradeshiya sabha in terms of section 134 (i) of Pradeshiya sabha Act. No.15 of 1987.	Action will be taken to recover the rate and tax with the approval of Hon. Governor once after receipt of property valuation records from department of valuation.	Action should be taken to strengthening the revenue collection management and collection of revenue arrears.

3. Operational Review

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

Audit Observation

A sum of Rs. 30,190,552 had been deposited in a fixed deposit account for the purpose of earning interest without being implemented development works.

Comments of the Council

Development works had been delayed due to the scarcity of resources and covid-19 pandemic, will be implemented with the approval of the council in future.

Recommendation

It should be confirmed the utilisation of council fund for the development activities optimally.

3.2 Operational Inefficiencies

Audit Observation

Ownership of 10 Land and buildings utilized and vested for the council had not been belonging to the council up to now.

Comments of the Council

Value of these will be shown in the financial statements for the year 2022 and value will be assessed (Title deeds and survey plans) included for balance of 06 Land and buildings.

Recommendation

Action should be expedited regarding this matter.