

## **Kahatagasdigiliya Pradeshiya Sabha - 2021**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kahatagasdigiliya Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, including a summary of significant accounting policies, 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 Sabhas 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 presented in 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 Kahatagasdigiliya Pradeshiya Sabha as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

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

My opinion is qualified based 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 Responsibility for the Audit of 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 for Local Authorities 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared.

#### **1.4 Scope of Audit (Auditor's Responsibility in Auditing 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:

- Appropriate audit procedures were designed and performed and identify and assess the risks of material misstatement of the financial statements, whether due to fraud or errors in providing a basis for the expressed audit 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.
- 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 the 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 the Pradeshiya Sabha 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) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statements of the Pradeshiya Sabha is corresponded with financial statements of the previous year.
- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (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-compliances with Sri Lanka Public Sector Accounting Standard for Local Authorities

| Non-compliance with the relevant standard   | Comments of the Council | Recommendation   |
|---|-------------------------|--|
| (a) Although the budgeted information should be presented in the financial statements for that period in the budget documents prepared in accordance with Sri Lanka Public Sector Accounting Standard 3.7 for Local Authorities, the financial statements of the Pradeshiya Sabha were presented without budgeted information.      | Accepted.               | Should be act in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities. |
| (b) According to section 15.8 of the Public Sector Accounting Standards of Sri Lanka for Local Authorities, loans less than one year old at the reporting date should be classified as current liabilities, but the total loan balance of Rs. 3,807,187 payable to the local Loan Development Fund was indicated as long term loan. | Accepted.               | Should be act in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities. |

### 1.6.2 Accounting Deficiencies

| Audit Observation  | Comments of the Council | Recommendation                      |
|--|-------------------------|-------------------------------------|
| (a) Although the purchase of property and equipment was Rs. 12,359,407 according to the cash flow statement of the year under review, the additions to assets were Rs. 10,614,665 as less by Rs. 1,744,742 in the year under review. | Accepted.               | Should be accounted correct values. |
| (b) Rs. 13,454,545 of industry creditors as at 31 December of the year under review were not accounted as a current liability in the statement of assets and liabilities.  |                         |                                     |

### 1.6.3 Lack of Written Evidences for Audit

| Audit Observation  | Comments of the Council | Recommendation  |
|--|-------------------------|---|
| The journal entries and schedules were not submitted for the adjustments for the year under review mentioned in the cash flow statement amounting to Rs. 11,616,174. | Accepted.               | Action should be taken to identify the amount mentioned as adjustments. |

## 1.7 Non-compliances

### Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are given below.

| Reference to Laws, Rules Regulations etc.  | Non-compliance   | Comments of the council  | Recommendation   |
|--|--|--|--|
| (a) Financial Regulations 571 of the Democratic Socialist Republic of Sri Lanka. | Action was not taken as per the Financial Regulations regarding the expired contract retained money of Rs. 88,314. | Action will be taken in accordance with Financial Regulations 571. | Action should be taken as per the Financial Regulations. |
| (b) Section 3.1 of the Circular No. 30/2016 dated 29 December 2016.              | The fuel consumption tests of 04 vehicles owned by the council were not checked.                                   | Action will be taken to do the fuel test.                          | Should be act as per the circular.                       |

## 2. Financial Review

### 2.1 Financial Results

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2021 was Rs. 7,583,201 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 31,852,800.

### 2.2 Revenue Administration

#### 2.2.1 Performance of the Revenue Collection

| Audit Observation  | Comments of the Council | Recommendation  |
|--|-------------------------|---|
| (a) Assessments and Taxes  |                         |   |
| The arrears of assessment amounting to Rs. 2,067,249 and garbage tax amounting to Rs. 410,078 as at 31 December of the year under review had not been recovered. | Accepted.               | Arrangements should be made to collect arrears of assessment and garbage tax.           |
| (b) Rentals  |                         |   |
| The outstanding shop rental amounting to Rs. 1,809,294 and Rs. 1,572,165 of tender lease rent as at 31 December of the year under review were not recovered.     | Accepted.               | Arrangements should be made to recover the arrears of shop rents and tender lease rent. |

### 3. Operational Review

The following are the facts observed regarding the performance of the council's duties of regularizing and controlling the matters of public health, public utility services and public roads and the welfare, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

#### 3.1 Management Inefficiencies

| <b>Audit Observation</b>   | <b>Comments of the Council</b>       | <b>Recommendation</b>  |
|--|--------------------------------------|--|
| (a) Rs. 100,000 received in the year 2020 for the future development works of the Kalanikawewa Vapikarama Temple had been retained in the public deposit account until 31 December of the year under review without being used for that work or any other development work necessary with formal approval.   | Noted to act with govern.            | Should be utilized the funds.  |
| (b) An amount of Rs. 3,577,076, which was the retention in hand of the project for the construction of an office building under the NELSHIP project, was retained in the public deposit account without settlement for more than two years.  | Action will be taken to get revenue. | Arrangements should be made to settle or get revenue.                  |
| (c) 08 Vehicles worth rs. 3,215,000 owned by the council remained idle throughout the year without being used for any purpose.   | Accepted.                            | Action should be taken to utilize the vehicles.                        |
| (d) Although machinery and vehicles owned by the Pradeshiya Sabha should be provided on rental basis even after collecting the payable fee for that as per Local Government Commissioner's Circular No. NCP/LG/DE/04/04/2020 dated 28 March 2020, Rs. 625,742 had not been recovered as at 31 December of the year under review due to the machines of the Pradeshiya Sabha were given without charging money on the contrary. | Accepted.                            | Should be act as per the Commissioner General of the Local Government. |