

## **Kanthale Pradeshiya Sabha – 2021**

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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 Kanthale 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 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 Kanthale 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**

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Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 Sri Lanka Public Sector Accounting Standards, 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 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 includes 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 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

### Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The stamp duty of Rs.2,893,351 received in the year under review relating to the period from 2016 to 2019 was credited to the income of the year under review.	Will be corrected in the preparation of final accounts for the year 2022.	Financial statements should be prepared accurately.
(b) The advance amount of Rs.913,000 paid to a contractor, was not disclosed in the balance sheet of the year under review.		

## 1.7 Non-compliance

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

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 159 of the Pradeshiya Sabha Act No. 15 of 1987	Action had not been taken to recover the arrears income of Rs.28,792,365 due at the end of the year under review and out of this, Rs.10,738,556 would have been due from about 10 years.	Actions will be taken to collect arrears.	Action should be taken as per the provisions of the Pradeshiya Sabha Act.

(b) **Pradeshiya Sabha  
(Finance and  
Administration) Rules,  
1988**

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| (i) Rule No. 33  | A register of tax defaulters for Rs.11,659,457 was not maintained.  | Action will be taken to prepare a register.  | It should be done according to Pradeshiya Sabha rules. |
| (ii) Rule No. 218  | All the land and buildings costing Rs.160,890,599 had not been surveyed annually for more than 05 years.  | Surveys will be conducted in the future.   | It should be done according to Pradeshiya Sabha rules. |
| (c) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka                 | Action had not been taken as per financial regulations regarding 2 custodial deposit balances of Rs.1,384,887 exceeding 2 years.  | Action will be taken to take to income.  | Action should be taken as per financial regulations    |
| (d) Public Finance Circular No. PFD/PMD/Cir/2021/01 dated 29/09/2021 of the Treasury Secretary | 05 contracts valued at to Rs.7,137,038 were awarded on 05 occasions without verification of qualifications by the head of the institution and a three-member committee in awarding direct contracts to community-based organizations. | The relevant contract has been awarded on the recommendation of the Community Development Officer. | Action should be taken as per circular.                |

**2. Financial Review**

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**2.1 Financial Results**

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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. 7,574,147 as compared with the excess of revenue over recurrent expenditure amounted to Rs.9,765,379 in the preceding year.

**2.2 Revenue Administration**

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**Performance in Revenue Collection**  
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<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
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<p>(a) <b>Rates and Taxes</b></p> <p>-----</p> <p>Action had not been take to recover the Rates and taxes of Rs.11,659,457 due at the end of the year under review and this was mainly caused due to the inefficiency of revenue department of the Sabha.</p>	<p>Arrangements are being made to collect arrears.</p>	<p>Actions should be taken to recover the dues promptly.</p>
<p>(b) <b>Rent</b></p> <p>-----</p> <p>There was no formal agreement entered with 32 lessees related to the lease of shop premises in the year under review, the annual rent of which was Rs.2,452,132 and no arrangements were made to collect the arrears of rent of Rs.4,377,705 due from them at the end of the year under review.</p>		
<p>(c) <b>License Fee</b></p> <p>-----</p> <p>According to the National Environment Act No. 47 of 1980 as amended by Acts No. 53 of 2000 and No. 56 of 1998, out of 129 industries required to obtain environmental permits during the year under review, 45 industries had obtained permits and therefore the Sabha had lost Rs.588,000 which could have been recovered as license fees and inspection fees and trade licenses had been issued in the year under review for 84 industries that had not obtained environmental licenses.</p>	<p>Plans have been made to aware customers to obtain environmental permits in the future.</p>	<p>Industries that need to obtain environmental permits should be identified in time and regulations should be made according to the Act.</p>

### 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 Idle or Under Utilized Property, Plant and Equipment

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##### Audit Observation

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It was confirmed that 09 buffet sets worth Rs. 295,500 purchased in the previous year and the year under review were still idle at the end of the year under review.

##### Comments of the Council

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This was due to the delay of the respective Members.

##### Recommendation

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Purchased goods should be used effectively.

#### 3.2 Human Resource Management

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##### Audit Observation

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Due to the vacancies of 04 officers in 03 posts that have been in existence for more than 05 years, many measures to be taken by the Sabha for public welfare such as preparing a formal action plan, taking formal action for public complaints, maintaining formal documents and driving records related to vehicles, etc. were not taken.

##### Comments of the Council

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The concerned recruiting officer has not done any recruitment till now.

##### Recommendation

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Vacancies should be filled.

#### 3.3 Management of Vehicle fleet

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##### Audit Observation

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While the vehicles of the council were traveling out of the institution premises and returning to the institution from away, gate records were not maintained regarding the location of the respective vehicles, the subject of the journey, the milometer, with whom they were traveling etc.

##### Comments of the Council

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Corrective measures will be taken in the future,

##### Recommendation

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Vehicles should be utilized effectively and records and schedules related to vehicle control should be maintained.

#### 4. Accountability and Good Governance

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##### Budgetary Control

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###### Audit Observation

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A sum of Rs.74,198,615 were saved from the allocations made for 20 expenditure objects and it was in the range of 50 percent to 98 percent of the estimated allocation value. Also, the total allocation of 19 other expenditure objects amounting to Rs. 12,475,250 was saved.

###### Comments of the Council

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I would like to inform that it was not possible to spend the expected provision in full due to the prevailing epidemic situation.

###### Recommendation

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The annual budget should be used as a formal control instrument.