

Kotapola Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kotapola Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at December 2021, Statement of Financial Operations statement of changing Equity. 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 the 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 Kotapola 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 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 (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 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'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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) The value of Rs. 6,580,315 had not been capitalized in relation to the improvement of land and buildings owned by the council during the year under review.	As the payment for Phase I and II of the construction of the upper floor of the Pradeshiya Sabha building has been made in the year 2022, it will be capitalized in the preparation of the financial statements of the year 2022 and the full payment for the development of the Kosmodara Sports Ground has not been made in the year under review and will be capitalized after the completion of the work and payment in the preparation of financial statements for the year 2022.	Should be accounted correctly.

<p>(b) The provision had not been made as at 31 December of the year under review under various creditors for an amount of Rs.4,492,028 payable on behalf of the Local Government Pension Contributory Fund.</p>		
<p>(c) The provision had not been made under sundry creditors for sundry expenses amounting to Rs.156,678 at the end of the year under review.</p>		
<p>(d) The inventory and consumables amounting to Rs.211,496 were accounted at the end of the year under review, as machinery, furniture and equipment.</p>		
<p>(e) Under Journal Entry No. 43, while adjusting the unaccounted during the year under review, creditor balances of the previous years to the financial statements, Rs.4,703,281 related to 15 work credit balances had been credited to the various creditors account.</p>	<p>The action will be taken to correct by the financial statement for the year 2022.</p>	<p>Should be accounted correctly</p>
<p>(f) In relation to 06 industries that had been implemented in the year under review, the provision for creditor had been under stated by Rs.16,962,774.</p>		
<p>(g) The debtor and creditor provision of Rs.2,229,469 had not been done in relation to 09 works which had been implemented under the Decentralized Development Program and Rural Road Development Program in the year under review.</p>		
<p>(h) During the year under review, Rs.365,934 retention related to 07 works which were implemented on public fund allocations had been accounted in the deposit account and also under industrial creditors.</p>		

(i) The value of Rs. 1,201,295 receivables related to 07 works which were implemented in the year under review under the Pradehiya Sabha infrastructure development program had not been accounted under capital debtors.		
(j) In the year under review, the total amount of Rs. 7,116,821 had been understated in the Industrial Debtors Account in relation to 04 industries that were implemented under the local council infrastructure development program in the year under review..		
(k) The Creditor provisions of Rs.1,158,129 had not been made in relation to 03 industries which were contracted to be implemented in the year under review.	The action will be taken to correct by the financial statement for the year 2022.	Should be accounted correctly
(l) All income and expenses had not been included in the trial balance with the financial statements at the end of the year under review.		

1.6.2 Suspense account

Audit Observation	Comment of the Sabha	Recommendation
The action had not been taken to identify and settle the debit balance of the suspense account of Rs.64,848 which has been going on for many years during the year under review,.	The causes of the suspense account will be investigated and corrected in the future.	The action should be taken to correct as soon as possible.

2. Financial review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 4,599,517 as against the excess of revenue over recurrent expenditure amounted to Rs. 19,351,684 in the preceding year.

2.2 Performance in Revenue Collection

Assessments

Audit Observation

There were 701 assessment units out of that 36 assessment units had an outstanding balance of Rs.165,984.

Comment of the Sabha

The action will be taken to recover the arrears.

Recommendation

Arrears of assessment should be collected immediately.

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 Deficiencies in contract administration

Audit Observation

During the year under review in the construction of concrete drains on the allocation of council funds, the rates of ST-057 and ST-064 introduced by the Provincial Road Development Authority had been used instead of the rate of Rs. 843 introduced under Ct-36 to use formwork for drains by seasoned plywood. Therefore, Rs.165,742 had been over paid for formwork in behalf of 484.3 square meters for the construction of 05 drains.

Comment of the Sabha

The General Manager of the Provincial Road Development Authority should use the unit prices approved by the General Manager of the Provincial Road Development Authority in preparing the estimates for the road works as per the financial Circular dated 03/2014 and 15 October 2014 issued by the Chief Secretary.

Recommendation

Appropriate and favourable rates should be used.