

Kotagala Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kotagala Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account including a summary of 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 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kotagala Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 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 Sub-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 identify and assess the risks of material misstatement in 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 was obtained 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.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as required by Section 6 (I) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required 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

Accounting Deficiencies

Audit Observation	Comment of the sabha	Recommendation
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(a) Even though an expenditure of Rs. 5,755,374 had been incurred for the improvement of fences of two lands belonging to the Sabha during the year under review, the said expenditure had not been capitalized.	It has been informed that the rectification will be made through the financial statement to be prepared in the year 2022.	Capital expenditure should be brought to accounts.
(b) Even though a sum of Rs.4,531,256 had been spent in the preceding year for the improvement of assets belonging to the Sabha, those assets were assessed by the Revenue Inspector at Rs.1,775,000 and the value of the assets had been understated by Rs.2,756,256 in the financial statements.	It has been informed that the rectification will be made through the financial statement to be prepared in the year 2022.	The value of assets should be brought to accounts accurately.
(c) The value of Rs. 59,878,500 of the land located at the waste disposal site of Lochil estate belonging to the Sabha, which was shown in the financial statements of the preceding year, had not been included in the financial statements of the year under review.	It has been informed that the rectification will be made through the financial statement to be prepared in the year 2022.	The value of assets should be brought to accounts accurately.

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| (d) | There were understatements totalling Rs. 867,996 relating to 02 instances as expenditure of Rs. 24,540 and liabilities of Rs. 843,456 and overstatements totalling Rs. 4,184,217 relating to 02 instances as assets valued at Rs. 3,266,997 and liabilities of Rs. 917,220. | It has been informed that the rectification will be made in the preparation of financial statements for the year 2022. | Financial statements should be prepared accurately. |
| (e) | The value of Rs. 8,964,276 pertaining to 07 items of assets which should be shown under machinery and equipment in the financial statements, had been shown under office equipment. | It has been informed that the rectification will be made through the financial statement to be prepared in the year 2022. | Balances of assets should be classified and brought to accounts accurately. |

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 2021 amounted to Rs. 5,404,452 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs. 3,100,415 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comment of the Sabha	Recommendation
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(a) Rates and Taxes		

i. Rates in arrears totalling Rs. 2,247,517 recoverable from 742 persons for 545 units transferred by the Nuwara Eliya Pradeshiya Sabha in the year 2018 when establishing new Pradeshiya Sabhas, had not been recovered even by 31 December 2021.	It has been informed that action will be taken to recover in future.	Revenue in arrears should be recovered.
ii. Since Rates totalling Rs. 3,210,767 of 1433 persons from 905 units had not been recovered, including a balance of Rs.1,930,908 which had passed between the years 01 to 05 years and a balance of Rs.1,279,859 that remained outstanding for	Balance sum of money will be recovered without delay.	Revenue in arrears should be recovered.

more than 05 years, the performance of the collection of revenue was not at a sufficient level.

(b) Other Revenue

Charges totalling Rs.242,500 recoverable from 97 three wheelers in six three wheel parks relating to the preceding year and charges recoverable from three wheel parks for the year under review had not been recovered.

It has been informed that the three-wheel parks are located on the roads belonging to the Road Development Authority and it was the reason for the failure to obtain the necessary permission for the same.

Revenue in arrears should be recovered.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Delays in Projects Activities or Capital works

Audit Observation	Comment of the Sabha	Recommendation
(a) An amount of Rs.398,385 had been paid to the contractor on 26 May 2021 for the installation of a fence around the Argil Com land of 55 perches belonging to the Sabha located in Kuda Oya, Kotagala. Even though the work should have been completed by 26 August 2021, the work had not been even commenced as at 21 January 2021, the date of audit.	It has been informed on 10 August 2022 that action will be taken to complete the work and settle the advance before 22 October 2022 as the work was not yet completed due to the difficulties in obtaining necessary materials.	The work should be completed without delay.
(b) The Sabha had entered into an agreement with a contractor on 11 May 2015 for the construction of a new building at a cost of Rs.83,373,432 and a sum of Rs.21,559,211 had been paid by 31 December 2016. Nevertheless, its work had been stopped for more than 5 years due to administrative and technical issues.	It has been informed that a sum of about Rs. 27 million has to be paid to the contract society, and to pay that amount and to continue the work, future action will be taken after a discussion to be held on 19 August 2022 with the	Necessary action should be taken to recommence the work without delay.

contract company, the consulting firm, the Commissioner of Local Government and the Director of Engineering Services.

3.2 Deficiencies in the Contract Administration

	Audit Observation	Comment of the Sabha	Recommendation
(a)	A sum of Rs. 2,856,631 had been paid for 03 works that were established by utilizing the financial provisions of the State Ministry of Estate Housing and Community Infrastructure and a sum of Rs. 1,370,536 had been overpaid for 08 items of said works.	Action will be taken to recover the relevant money and report to the audit.	Action should be taken to recover the money overpaid.
(b)	A sum of Rs. 1,684,917 had been paid for 02 works that were established by utilizing the financial provisions under the programme of infrastructure development essential for local authorities come under the Chief Secretary of Central Province and a sum of Rs. 80,947 had been overpaid for 06 items of said works.	It had been informed that action will be taken to deduct the amount overpaid and report to the Audit.	The amount overpaid should be recovered.