

Kalpitiya Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalpitiya Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, statement of changes in net assets and cash flow statement 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 Kalpitiya 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 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 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.

- (a) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) 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

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendations
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(a) Although a cab valued at Rs. 500,000 was destroyed by fire during the year under review, no action had been taken to carry out investigations in accordance with F.R. 104 and make the related adjustments in the accounts.	It is informed that accounts will be prepared by making relevant adjustments from the accounts in the ensuing years.	Relevant value should be adjusted in the financial statements.
(b) The amount of Rs.1,028,100, which was the 1 percent tax collected by the Sabha when the lands were partitioned into blocks and sold, was retained in the deposit accounts without being credited to the revenue.	It is informed that arrangements will be made to credit the relevant money to the revenue.	Action should be taken in accordance with the accounting principles.
(c) Capital expenditure and industrial creditors worth Rs. 2,193,008 had been overstated in the accounts.	Arrangements will be made to make corrections in the future.	Action should be taken in accordance with the accounting principles.

1.6.2 Lack of Documentary Evidence for Audit

Item	Amount (Rs.)	Evidence not Furnished	Comment of the Council	Recommendation
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Revenue Creditors	6,320,323	Balance confirmation certificates.	Action will be taken to furnish the balance confirmations to the Audit.	Documentary evidence should be furnished to audit.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 30,396,618 as at 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 14,755,272.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

	Audit Observation	Comment of the Sabha	Recommendation
(a)	<p>Rates and Tax</p> <p>There was a balance of Rs.51,620 from 8 properties in the public sector, Rs.12,684,880 from 631 properties in the private sector, and Rs.221,230 from 46 properties in other sectors as at 31 December 2021 and those balances remained irrecoverable even as at 30 June 2022.</p>	<p>It is informed that necessary arrangements will be made to recover the relevant outstanding balances in the ensuing year.</p>	<p>Action should be taken to recover the outstanding tax.</p>
(b)	<p>Rent</p> <p>The Sabha had not made adequate effort to recover an amount of Rs.1,808,367 from 42 shops and Rs.1,376,807 from 33 meat shops belonging to the Sabha.</p>	<p>Arrangements are being made enter into agreement by collecting all arrears in signing new contracts for the new valuation and to write off irrecoverable amounts from the books.</p>	<p>Action should be taken to recover the arrears.</p>