

Kuruvita Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Adverse Opinion

The Audit of the financial statements of the Kuruvita 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, Cash flow statement for the year then ended 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 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 published in Parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Kuruvita Pradeshiya Sabha as at 31 December 2021 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Adverse Opinion

I expressed adverse opinion 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 the 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 as management determine is necessary to enable the preparation of the financial statements that are free from material misstatements, 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 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 misstatements, 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 a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 procedure 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 discourses, 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 compiled 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 the 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 (1) (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 Policies

Audit Observation	Comments of the Council	Recommendation
Even though 06 items of accounts totaling Rs. 65,924,859 had been accounted for on cash basis, that had not been disclosed in the statement of accounting policies.	It has been informed that, action will be taken to rectify when preparing final account of the year 2022.	The policy used should be disclosed.

1.6.2. Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs. 7,201,412 receivable for the works carried out on decentralized and Provincial Council funds during the year under review had not been accounted for in capital revenue and capital expenditure.	It has been informed that action will be taken to rectify in preparing final accounts in the year 2022.	All income and expenses relating to the year should be accounted for.
(b) A total sum of Rs. 20,618,256 relating to 10 non-current assets purchased and constructed during the year under review had not been capitalized.	It has been informed that action will be taken to rectify in preparing final accounts in the year 2022.	All fixed assets purchased and constructed during the year should be capitalized.
(c) The value of 213 books received as donations in the year under review had not been capitalized and the value of books purchased had been capitalized understating by Rs.		The correct value relating to the year should be calculated and capitalized.

<p>11,575.</p> <p>(d) At the maturity of the fixed deposit the annual interest is not added to the fixed deposit and is credited to the relevant bank account, but the related interest amount of Rs. 78,750 was debited to the fixed deposit account.</p>	<p>It has been informed that, action will be taken to rectify in preparing accounts in the year 2022.</p>	<p>The interest income should be correctly accounted for.</p>
<p>(e) The fixed deposit amounted to Rs. 2,400,000 and the annual interest thereon had not been accounted for.</p>		<p>All fixed deposits should be accounted for.</p>
<p>(f) Even though, the approval of the Governor was granted to waive off the late charges of rentals amounting to Rs. 99,472 relating to the months of May and June 2021, the waive off value had not been accounted for.</p>		<p>The transaction should be correctly identified and accounted for.</p>
<p>(g) According to the recommendations of the Boards of survey of the year 2020, inventory items had been disposed and auctioned. Nevertheless, action had not been taken to eliminate the cost of above items from the respective non-current assets and as such the value of the non-current assets was not correct.</p>	<p>It has been informed that, action will be taken to rectify when preparing final account of the year 2022.</p>	<p>The value which Capitalized should be correctly identified and accounted for.</p>
<p>(h) The creditors were not provided for the expenses totaling Rs. 270,651 to be paid relating to the year under review.</p>		<p>Accrued expenses should be correctly identified and accounted for.</p>

1.7 Non-compliances

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

The 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 Sabha	Recommendation
	Financial Regulations of the Democratic socialist Republic of Sri Lanka.			
(i)	Financial Regulation 115(2), (3), (4)	Action had not been taken in terms of the regulations in respect of creditors totaling Rs. 50,266,187 from the year 2011 to the year 2020.	It has been informed that action will be taken in terms of the regulations in respect of eliminate the balances remained from the year 2011 to 2020 from the creditors ledger by taking into revenue.	Action should be taken in terms of financial regulation.
(ii)	Financial Regulation 571(2)	Action had not been taken in terms of the regulations in respect of miscellaneous deposits, work deposits contract deposits and tender deposits valued at Rs. 9,146,573 relating to the period from the year 2003 to the year 2018.	It has been informed that action is being taken to take deposits into revenue which could be taken in to revenue and the deposits to be kept forward are deposited in the deposits register as deposits.	The responsible officers should take action according to the financial regulation.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 90,282,746 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 94,509,380.

2.2 Revenue Administration

Performance in Collection of Revenue

Audit Observation	Comments of the Council	Recommendation
Other income		
The arrears of rates and taxes as at the end of the year under review amounted to Rs. 10,738,768. It included a sum of Rs. 422,964 which receivable from 101 Government institutions and a sum Rs. 10,315,804 which receivable from 4978 private units but action had not been taken to recover them.	It has been informed that, action could not be taken on arrears of rates and taxes in terms of the Pradeshiya Sabha Act due to the situation of Corona epidemic prevailed in the country and it is difficult to take action to recover arrears of taxes due to prevailing economic crisis at present.	Timely action should be taken to recover arrears of rates and taxes in terms of the provisional of the Pradeshiya Sabha Act.

3. Operating Review

The matters observed in respect of the activities that should be carried out by the Sabha such as regularize and control over the matters of public health, public utility services, thoroughfares and the comfort, facilities and well-being of the people under section 03 of the Pradeshiya Sabha Act are given below.

Operating Inefficiencies

Audit Observation	Comments of the Council	Recommendation
The legal action had been initiated only for 10 unauthorized constructions out of 60 unauthorized constructions identified from the year 2016 up to June 2021 and what steps had been taken to regularize or remove other unauthorized constructions were not submitted to audit.	It has been informed, that the cases have been filed for ten unauthorized constructions and demolishing orders have been sent for the remaining unauthorized constructions and it has not been possible to prosecute the rest of the unauthorized constructions as they have not been gazetted as an Urban Development area.	Action should be taken according to existing laws and rules in respect of unauthorized constructions.