

Kundasale Pradeshiya Sabha – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kundasale Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of Balance sheet as at 31 December 2021, Statement of Financial Operations 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 financial statements give a true and fair view of the financial position of the Kundasale 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

I expressed qualified 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 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 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 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

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) An suspense account balance of Rs.15,383 was not settle and had been shown under current liabilities in the financial statements.	It has been informed that this deficiency will be rectified.	Suspense account balances should be identified and settled.
(b) Although the fixed deposit interest receivable as on December 31 of the year under review was Rs.6,098,117, the financial statements had been overstated by Rs.8,197,418 since it had been recorded as Rs.14,295,535.	It has been informed action will be taken to correct by journal entries during the preparation of the financial statements of the year 2022.	Financial statements should be prepared accurately.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.418,224,872 when comparing the total balance of Rs.398,702,367 shown in the financial statements in relation to 3 asset account subjects of Rs.87,739,984 and 02 liability account subjects of Rs.310,962,383, with the balances shown in the relevant source documents.	It has been informed that corrections will be made during the preparation of the financial statements for the year 2022.	Differences should be identified and necessary adjustments should be made to the financial statements.

1.6.3 **Documentary Evidences not made available for Audit**

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
Due to non-submission of updated documents and schedules related to 09 asset account subjects with total of Rs.307,877,527 and 06 liability account subjects of Rs.50,270,669, they could not be verified satisfactorily during the audit.	It has been informed that actions were taken to write off the water Projects stock balance and action will be taken to keep other documents up to date.	All information relevant to the audit should be submitted.

1.7 **Non- Compliances**

Non-compliance with Laws, Rules and Regulations

Following are the instances of non-compliance with laws, rules and regulations observed during sample audits.

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Comments of the Sabha -----	Recommendation -----
Section 149 of the Pradeshiya Sabha Act No. 15 of 1987	Although a fee not exceeding 1 percent of the revenue of hotels registered with the Sri Lanka Tourism Board are required to be charged, Rs. 14,462,640 which was less than the prescribed fee for the years 2015, 2016 and 2017 had been charged without verifying the accuracy of the financial statements submitted to the council by a hotel located in the council area of authority. Also, the fee of Rs. 17,033,789 for the years 2018, 2019 and 2020 was not collected.	It has been informed that a Case has been filed to recover the arrears.	According to the Act, Action should be taken to recover the income due to the council.

2. **Financial Review**

2.1 **Financial Result**

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. 16,544,674 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 91,567,788 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Sabha	Recommendation
An amount ranging from Rs.11,536,299 to Rs.73,432,281 in the current account maintained by the council remained idle throughout the year under review without using the council's money to fulfil the objectives of the council or to invest or act according to section 131 of the Act.	It has been informed that many development projects were being completed and since other projects had been completed, money had been retained to make related payments.	The provisions of the Act should be followed in relating to surplus money.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) As at the beginning of the year under review, the assessment and tax arrears was Rs. 26,922,093. Due to the collection of total amount of Rs.20,649,740 as Rs.5,886,533 from the arrears during the year and Rs.14,763,207 from Billings of Rs.37,152,599 during the year; the percentage of assessment collection was only 32 percent. Arrears had not been recovered as per Section 158 of the Pradeshiya Sabha Act.	It is stated that the reason for this was that the clients did not get an opportunity to pay the income due to the Covid epidemic situation.	Revenue in arrears should be collected as per the provision of the Act.
(b) Menikhinna New Mall consists of 29 stalls, out of which 02 stalls were not leased out on tax basis from 14th July 2016 to 31st December of the year under review; hence sabha had lost an income of Rs.239, 700. Also, Rs.312,360 had not been collected by December 31 of the year under review in relation to 20 stalls out of the 27 stalls that were leased out.	It has been informed that Rs.126,310 has been recovered from the outstanding amount by 26th July 2022 and reminder letters have been sent to recover the outstanding amount.	Shop rent in arrears should be recovered.
(c) The Council had incurred a loss of Rs.4,187,000 Due to charging a lower fee proposed by the General Assembly, without charging rent as per the assessment carried out in 2014 for Digana multi-purpose building consisting of 33 stalls.	It had been referred to obtain new valuations and after receiving it, the shop rents will be charged accordingly.	Assessed rent should be charged.

- (d) Although the relevant rent should be charged according to the assessment of 2014 for the stalls in Balagolla Moragahapitiya mall rent According to the decision of the General Assembly held on February 25, 2015, it was proposed to charge Rs.500 for shop rooms on the upper floor and Rs.1,000 for shop rooms on the lower floor and, due to charging that rent sabha had lost an income of Rs.21,771,000 as of December 31 of the year under review.
- It has been informed that the finance and policy committee held on August 16, 2021 has decided to implement the new assessment regarding the lost income and the lessees have been informed about it.
- A new valuation should be obtained and shop rent should be charged accordingly.

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 **Uneconomic Transactions**

Audit Observation

A multi-purpose building equipped with modern facilities was constructed without the approval of the Mahaweli Authority on the land given by the Mahaweli Authority of Sri Lanka for the construction of a children's park in Rajawella town. Rs.607,063 spent on the initial construction work and Due to having to pay attorney's fees of Rs.1,500,000 for representing it, On failure of the responsible officers of the sabha to take proper action In connection with the case filed by the trade associations of the area in the Colombo Court of Appeal to prohibit the construction of this multi-purpose building. The council had to bear a useless expenditure of Rs. 2,107,063.

Comments of the Sabha

It has been informed that the expenditure incurred at the beginning of the project is not a useless expenditure as the project will be restarted after the court decision.

Recommendation

Prior to the construction, the relevant approvals should be obtained and according to the circular instructions, the ownership of the land should be settled and the construction should be carried out.

3.2 **Idle or underutilized Property, Plant and Equipment**

Audit Observation

Baler machine and garbage dehumidifier worth Rs.12,366,000 had been installed at Aluthwatta Garbage Yard, but those machines had not been put into use by December 31 of the year under review.

Comments of the Sabha

As the electrical capacity is not sufficient to operate the machines, a transformer has been installed and accordingly, it has been informed that necessary arrangements are being made to obtain electricity.

Recommendation

Assets should be utilized effectively.