

## **Kotapola Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Kotapola Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, 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 2020, 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**

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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**

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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)**

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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 Municipal council/ Urban council/ Pradeshiya Sabha (As applicable) 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**

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 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**

| <b>Audit Observation</b>  | <b>Comment of the Sabha</b>   | <b>Recommendation</b>         |
|---|---|-------------------------------|
| -----   | -----   | -----                         |
| (a) The provision had not been made for the audit fees to be paid for the year under review.  | The action will be taken to correct in the preparation of accounts for the next year. | Should be properly accounted. |
| (b) The provisions had not been made for miscellaneous expenses amounting to Rs. 516,932 to be paid for the year under review.  | The action will be taken to correct in the preparation of accounts for the next year  | Should be                     |
| (c) The over provision had been made for Industrial debtors in previous year amounting to Rs. 2,048,153 had not been adjusted even in the year under review..                                 |   |                               |
| (d) Over provision of Rs.1,626,326 had been made for industrial creditors in last year and adjustments had not been made to the accounts during the year under review for the over provision. |   |                               |

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|---|---|----------------------------|
| <p>(e) The value of 13 lands and 12 buildings identified by the Land and Building Survey during the year under review had not been assessed and accounted.</p> <p>(f) Furniture and Equipment worth of Rs. 7,385,690 included in the financial statements at the end of the year under review was not included in the Fixed Asset Register while Rs.180,570 worth of inventory and consumer goods were accounted under Furniture and Equipment.</p> <p>(g) Machinery valued at Rs.1,125,508 included in the fixed assets register had not been mentioned in the Financial Statements.</p> | <p>After the ownership is settled and the value is assessed and then accounted.</p> <p>Accounted.</p> <p>Actions will be taken to update the fixed asset register</p> | <p>properly accounted.</p> |
|---|---|----------------------------|

**1.6.2 Un reconciled control accounts or Records.**

**Audit Observation**

There was a difference sum of Rs. 66,667 in between a balance of Rs. 2,521,098 in the value of 03 accounting items in the financial statements and value of Rs. 2,454,431 in relevant utility registers/sub registers

**Comment of the Sabha**

Actions will be taken to correct

**Recommendation**

Action should be taken to correct the accounts by comparing the changes in the relevant balances.

**1.6.3 Suspense account**

**Audit Observation**

The action had not been taken during the year under review to identify and settle the debit balance of the suspense account balance of Rs. 64,848 due from 2016.

**Comment of the Sabha**

The causes to create the balance will be investigated and rectified in the future.

**Recommendation**

The necessary adjustment should be done to settle.

**1.6.4 Lack of Documentary Evidence for Audit**

**Audit Observation**

The Information required for the audit had not been submitted for 08 accounting items amounting to Rs. 124,597,610. .

**Comment of the Sabha**

There is no evidence to confirm the balance.

**Recommendation**

Evidence confirming the account balance shown in the financial statements should be submitted.

## 1.7 Non compliances

### 1.7.1 Non compliances with laws rules and regulations

Instances of non-compliances with laws rules and regulations are as follows

| Reference to laws<br>rules regulations   | Non compliance  | Comment of the Sabha  | Recommendation                  |
|--|---|---|---------------------------------|
| <b>The Financial<br/>Regulations of the<br/>Democratic<br/>Socialist Republic<br/>of Sri Lanka</b> |   |   |                                 |
| (i) F.R 237  | 44 vouchers valued at Rs. 3,701,437 had been paid without certification and approval.   | It has now been rectified and payments will not be made with such shortcomings in the future. | Should comply with regulations  |
| (ii) F.R 371 (2)   | An advance of Rs.859,348 had been obtained by the Secretary of the Sabha during the year under review on four occasions exceeding the approved limit. | The advances will not be given beyond the limits in the future.                               | Should comply with regulations. |

## 2 Financial review

### 2.1 Financial Result

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 19,351,684 as compared with against the revenue over recurrent expenditure amounted to Rs. 7,999,510 in the preceding year.

## 2.2 Performance of the collections of Revenue

| <b>Audit Observation</b>   | <b>Comment of the Sabha</b>   | <b>Recommendation</b>                            |
|--|---|--|
| (a) There was an arrears of assessment balance of Rs. 114,803 as at the end of the year under review | Actions will be taken to correct  | Arrears of revenue Should be recovered promptly. |
| (b) There were acreage tax arrears of Rs. 200,350 as at the end of the year under review.            | The necessary action will be taken to correct the sub registers.                  |  |
| (c) There were tax arrears of Rs. 1,132,285 as at the end of the year under review.                  | The legal action will be taken in future to recover the arrears of the year 2020. |  |

## 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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

### 3.1 Management inefficiencies

| <b>Audit Observation</b>   | <b>Comment of the Sabha</b>   | <b>Recommendation</b>   |
|--|---|---|
| (a) The expenses for fuel amounting to Rs. 25,194 had been incurred contrary to the provisions of the letter of the Chief Minister of the Southern Province and the Minister of Local Government, the use of the cab owned by the Sabha for the field and personal activities of the members of the Sabha. | The cab will not be made available for the use of members of the Sabha In the future.                   | Actions should be taken in accordance with the letter.                                  |
| (b) Although the Sabha has decided to lease 1300 plastic chairs worth Rs. 900,900 purchased by the Sabha through an agreement for a fee of Rs. 8 per chair, by 08 December of the year under review, and It was not disclosed whether 650 chairs valued at Rs.450,450 had been given to any party.         | A document maintained and arrangements will be made to provide chairs in a proper manner in the future. | The distribution of chairs should be done in accordance with the decision of the Sabha. |