

Arachchikattuwa Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Arachchikattuwa Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial operations and the statement of changes in net assets for the year then ended and 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 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 Arachchikattuwa Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 (SLAuS). 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 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 (Responsibilities of Auditors 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 exercise 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, 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 Other Legal Requirements relating to Reports

Special provision with regard to the following were included in the National Audit Act No. 19 of 2018.

- The financial statements of the Pradeshiya Sabha were similar to the previous year as per the requirement pointed out in Section 6(1)(d)(III) of the National Audit Act No. 19 of 2018.
- Recommendations made by me during the previous year were included in the financial statements presented in terms of requirements pointed out in Section 6(I) (d) (IV) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations with regard to Preparation of Financial Statements

1.6.1 Accounting Deficiencies

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
Salary reimbursements receivable amounting to Rs. 2,836,252 for the preceding year had been accounted as income for the year under review.	I inform you that the relevant rectification will be made through journal entries.	Income for the year should be identified and accounted.

1.6.2 Lack of Documentary Evidence for Audit

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
Information required for audit relating to 03 items of accounts aggregating Rs.7,071,168 had not been presented for audit.	I will take action in future to rectify the deficiencies pointed out.	Documentary evidence confirming the account balances shown in the financial statements should be presented.

1.7 Non - compliance

1.7.1 Non – compliances with Laws, Rules, Regulations and Management Decisions.

Instances of non – compliance with laws, rules, regulations and management decisions are shown below.

<u>Reference to Laws, Rules, Regulation etc.</u>	<u>Non- compliance</u>	<u>Comments of the Sabha</u>	<u>Recommendation.</u>
(a) Paragraph 154(1) of the Pradeshiya Sabha Act No 15 of 1987	Even though a tax equal to 01 percent of the amount received from sale of land by auction should be recovered, that amount of tax had been recovered on the basis of total amount provided by the actioner. However, action had not been taken to recover the tax amount by confirming the actual sales value through the deed registered at the Office of the Land Registrar relating to the land sold.	Registration of land at the Office of the Land Registrar was not completed. I will take action to recover the relevant amount after completion of that. Reports of 08 lands registered at the Land Registry were received and the amount relating to that was received.	Prompt action should be taken to recover the balance amount of tax by confirming the actual sales value.
(b) Paragraph 571(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	It was unable to take action with regard to lapsed deposits due to non-preparation of age analysis for the balance of deposits as at 31 December 2020 amounting to Rs.5,484,460.	I will take action to prepare the age analysis for the deposit balances as at 31 December 2021.	Action in terms of Financial Regulations should be taken relating to lapsed deposits by preparing the age analysis.

2 Financial Review.

2.1 Financial Results.

According to the financial statements presented, excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.21,025,573 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.9,817,939. Increasing of revenue assistance for this year by Rs.6,995,790.65 as compared with previous year was the reason for excess of revenue over recurrent expenditure.

2.2 Revenue Administration

2.2.1 Performance of Revenue Collection.

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) Rates and Taxes ----- Activities relating to recovery of arrears of rates and taxes as at 31 December of the year under review amounting to Rs. 12,683,132 had remained at a weak level. Further, action had not been taken to recover the income of rates from 03 hotels including a hotel registered at the Tourist Board situated under the boundaries of rates and taxes.	Whatever possible measures are being taken at present and I will take action to recover the arrears amount as early as possible.	Action should be taken to expedite the recovery of entire arrears of rates and taxes.
(b) Acreage Tax ----- Acreage tax had not been recovered with regard to land area of 1036 acres approximately from 89 land owners for the year under review and of this, some land area had not been determined.	A sum of Rs.15,838 was received up to now. I will take prompt action to recover the balance amount and also, I will take action to find the information of unconfirmed properties by carrying out a survey.	Recovery of tax should be prompted by determining the extent of land correctly.
(c) License Fees ----- Regulations had not been formulated to identify the other source of income such as selling of foreign liquor, panchakarma services, swimming pool services etc. implemented in 03 hotels operated within the area of authority including one hotel registered at the Tourist Board and collect business license fee	One percent of the income had not been obtained during the previous years as 02 hotels had not obtained registration of the Tourist Board up to the year 2019. I inform you that	Source of income should be identified and business license income for the above source of income should be collected.

thereon. Similarly, action in terms of provisions of the Act had not been taken to recover an amount being 1 percent from the income of the previous year as license fee. action will be taken within this year to recover 1 percent tax from the income of the previous years.

(d) Other Income

Action had not been taken by the Sabha for leasing fruitfully or recover any income from the lands at the extent of 1499 perches amounting to Rs. 14,035,000 handed over to the Sabha while making allotment of land during the period from the year 2000 to 2018.

I inform you that action will be taken for leasing the above property and collect income beyond next year by carrying out a survey.

Prompt action should be taken for leasing the relevant property and collect revenue.

(e) Court Fines and Stamp Fees.

It was observed that there was a risk of depriving court fines amounting to Rs.4,070,684 receivable by the Sabha for the period from year 2005 to year 2014 and the stamp fees amounting to Rs.10,479,783 receivable from January 2008 to November 2010, relating to the area of authority of the District Court, Chilaw, by the Sabha.

There was a proposal stating that it is suitable to write off the above-mentioned amount under proposal No 05:4 to the general meeting of the Pradeshiya Sabha, Arachchikattuwa held on 08 December 2020 to take decision with regard to this court fine amounting to Rs.4,070,684 and the extract of the proposal and the photocopies of the letters were referred to the Commissioner of Local Government (North Western)

Action should be taken to recover the court fines and stamp fees receivable in an updated manner.

3 **Operating Review**

Matters observed with regard to fulfilling regulation and administration of facts relating to public health, public utility services and public roads with the protection of comfort, convenience and welfare of the people by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 **Assets Management**

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
Even though the body building equipment valued at Rs.859,250 were fixed at the Body Building Centre operated at the upper floor of the library building Arachikattuwa, action had not been taken to earn profit from those equipment.	Approval of the Commissioner of Local Government for recruitment of Training Instructor was received and application called for. Quarantine curfew was imposed based on the situation prevailed in the country on 20 August 2021 and as such the above mentioned date was postponed up to 29 October 2021. Accordingly, I will take necessary action promptly.	The relevant assets should be correctly managed for revenue earning activities.