

Kuliyapitiya Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Kuliyapitiya Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, statement of changes in net assets, cash flow statement for the year then ended and 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 Subsection 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 financial statements give a true and fair view of the financial position of the Kuliyapitiya Pradeshiya Sabha as at 31 December 2020, and 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 based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 of the Sabha.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and

- Whether the resources of the 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 and Regulatory Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- The financial statements presented by the Pradeshiya Sabha are consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 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

<u>Audit Observation</u>	<u>Comment of the Sabha</u>	<u>Recommendation</u>
(a) Due to capitalizing the value of the buildings constructed in the years 2018 and 2019 by increased value of Rs.8,496,481 through the adjustments made by journal entries, fixed assets and accumulated fund had been overstated by that amount.	It has been stated that action will be taken to correct it by journal entries in the preparation of accounts for the year 2021.	This should be rectified in the preparation of accounts for the year 2021.
(b) Capitalization of the value of capital expenditure of Rs.2,828,946 incurred during the year under review had been omitted.	Action will be taken to correct it by journal entries in the preparation of accounts for the year 2021.	This should be rectified in the preparation of accounts for the year 2021.
(c) Although value of the provision for library books creditors for the year under review was Rs.113,111, it had been brought to account as Rs.1,101,028 and as a result, provisions for creditors had been understated by Rs. 987,917.	As the actual creditors value for the library books should be Rs. 1,131,110, action will be taken to correct it by journal entries.	This should be rectified in the preparation of accounts for the year 2021.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
A difference of Rs. 11,355,625 was observed between the value as per the financial statements and the value as per the schedules relating to 06 items of account and action had not been taken to rectify the accounts by reconciling differences of relevant balances.	Action will be taken to correct it in the preparation of accounts for the ensuing year.	Action should be taken to minimize differences.

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. 47,419,314 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 55,230,883.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a) Of the Rates and acreage tax revenue that remained receivable as at 31 December 2020, a sum of Rs.554,178 further remained receivable even as at 31 December 2021.	Necessary steps will be taken to recover the arrears.	Action should be taken to recover the revenue in arrears.
(b) <u>Court fines and Stamp fees</u> Court fines of Rs.5,258,490 and stamp duty of Rs.16,957,546 due from the Chief Secretary of the Provincial Council and other authorities by 31st December 2020, further remained receivable even as at 31 December 2021.	Necessary steps will be taken to recover the arrears.	Action should be taken to recover the revenue in arrears.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Operating Inefficiencies

Audit Observation

The Sabha had set up two biogas units for solid waste management and 01 compactor, 01 tractor, 01 baling machine and two submersible water motors had been deployed for that unit. The liquid fertilizer produced by these two units had been sold at lower rates during the year under review with a view to popularizing it among the farmers and two 5kw generators were activated for the use of the same sector using the biogas generated. Recurrent and capital expenditure of Rs. 9,870,197 had been incurred during the year and revenue of Rs. 77,475 had been earned during the year.

Comment of the Sabha

As the Local Government Authority has the primary responsibility to protect the environment and public health in the area by collecting waste properly and cleaning the cities, it has to provide a comprehensive service without expecting any revenue for sanitation activities including waste management in the accomplishment of that responsibility.

Recommendation

Although it is not possible to earn profit in solid waste management, action should be taken to increase revenue.

3.2 Transactions of Contentious Nature

Audit Observation

An agreement was reached on 18 June 2019 to pay Rs.983,000 in installments for software development and service for one year under the North Western Local Government Automation (CAT 2020) program and Rs. 442,350 which is 45per cent of the total value had been paid before 31st December 2019. However, none of the other software included in this Agreement had been developed and supplied during the year 2020.

Comment of the Sabha

Only Rs. 442,350 has been paid for 5 works in the year 2019. No payments had been made for the works in the year 2020 (In the year 2020, payments were made only to the server) and software installation, training, and implementation are expected in the future relating to the remaining works. Due to the Corona epidemic situation prevailed in the country throughout the year 2020, it was not possible to carry out works as agreed and planned.

Recommendation

The remaining software installation, training, and implementation should be done without delay.