

## **Kurunegala 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 financial statements of the Kurunegala 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, 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 Kurunegala 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**

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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 (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**

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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 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)**

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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 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 Requirements

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

- (a) 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.
- (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

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Sabha	Recommendation
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(a) Other revenue of Rs.216,056,698 applicable to the general administration of the year under review had been overstated in the financial statements.	There is an error resulting from double counting and action will be taken to correct that error.	Revenue should be correctly identified and brought to account.
(b) Contribution for the pension of Rs. 1,230,470 pertaining to the year under review and an amount of Rs. 36,594 payable as at the end of the year under review had been overstated and understated respectively in the financial statements.	It is informed that action will be taken to rectify the Contributions to Pension Account.	Accuracy should be ensured in the process of accounting.
(c) A sum of Rs. 6,051,334 spent on the development of buildings during the year under review had not been capitalized.	Action will be taken to capitalize the same in the ensuing year to come.	Expenditure incurred in the development of buildings should be capitalized.

### 1.6.2 Non-reconciled Control Accounts or Reports

<u>Audit Observation</u>	<u>Comment of the Sabha</u>	<u>Recommendation</u>
A difference of Rs. 257,322,045 was observed between the value as per the financial statements and the value as per the corresponding reports relating to 06 items of accounts and action had not been taken to rectify the accounts by reconciling differences of relevant balances.	Action will be taken to rectify this difference	Action should be taken to reconcile the differences in the relevant balances and correct the accounts.

### 1.6.3 Unauthorized Transactions

<u>Description of the Unauthorized Transactions</u>	<u>Comment of the Sabha</u>	<u>Recommendation</u>
When incurring expenditure from the Sabha Fund under Sections 132 f,j,k, and m of the Pradesiya Sabha Act No.15 of 1987, although the maximum limit of the assistance that can be granted at the personal request is Rs.25,000 in terms of Circular No.2015/01 dated 02 November 2015 of the Commissioner of Local Government, financial assistance of Rs. 500,000 had been granted contrary to the Circular. It had not been verified whether the relevant beneficiary is a low-income in granting assistance and relevant assistance had been granted without being confirmed the unexpected disaster.	As the house of the Hon. Member had been totally damaged, a sum of Rs. 1,000,000 was approved as a special approval of the General Assembly. Nevertheless, after reducing that amount up to Rs.500,000 by the Commissioner of Local Government and referring it to the Hon. Governor, the Secretary to the Chief Ministry has granted approval for the payment of Rs.500,000.	Action should be taken to grant assistance in accordance with the circular instructions.

### 1.6.4 Lack of Documentary Evidence for Audit

<u>Audit Observation</u>	<u>Comment of the Sabha</u>	<u>Recommendation</u>
Details required for the audit relating to 03 items of account totaling Rs. 23,642,232 had not been furnished.	Action will be taken to furnish schedules. It is informed that there are no schedules relating to certain balances.	Evidence in support of the balances shown in the financial statements should be furnished.

## 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. 147,319,946 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 172,537,833.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
Of the Rates and tax deficit amounting to Rs. 7,735,198 existed at the beginning of the year under review, a sum of Rs.5,426,304 had remained recoverable and a sum of Rs. 3,997,415 remained recoverable from the billed amount of Rs.12,642,457 of the year.	It is informed to Audit that further action will be taken to recover the revenue in arrears in the future.	Having made arrangements to recover the arrears, the arrears should be recovered.

## 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 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The value of industrial debtors balances and other debtors balances receivable as of 31 December of the year under review totaled Rs. 281,638,841. According to the age analysis thereon, account balances relating to the period from 01 to 05 years totalled Rs. 26,541,753 and the account balances relating to the period exceeding 05 years totalled Rs. 1,148,299.	Action is being taken to recover the receivable balances.	Suitable administrative methods should be followed to recover the receivable balances expeditiously.

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| (b) The value of sundry deposits and industrial creditors balances payable as of 31 December of the year under review totalled Rs.392,736,248. According to the age analysis thereon, account balances relating to the period from 01 to 05 years totalled Rs.183,450,387 and the account balances relating to the period exceeding 05 years totalled Rs.784,627. | Action is being taken to settle the payables. | Action should be taken to settle the payables. |
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