

Kuruvita Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kuruvita Pradeshiya Sabha for the year ended 31st December 2020 comprising the statement of financial position as at 31st December 2020 and the statement of financial operations for the year then ended including 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 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 published in 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 Kuruvita Pradeshiya Sabha as at 31st 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 based 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 the 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 as management determine is necessary to enable the preparation of the financial statements that are free from material misstatements, 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 periodic financial statements to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 a 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 asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 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 discourses, 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 the Pradeshiya Sabha 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 the other Legal Requirements

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

- a) The financial statements of The Pradeshiya Sabha are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- b) The recommendations except the paragraph 1.2 (a) (b) made by me during the previous year are included in the financial statements presented as required by 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>Comments of the Sabha</u>	<u>Recommendations</u>
a) The receivables of salary reimbursements relating to the year under review had been brought to account overstating by Rs.459,387 and the revenue of salary reimbursements had been posted to the salary reimbursement account overstating by Rs. 665,698 and as such the balance of the above account had been understated by Rs.206,311 and the operating revenue of the year had been overstated by Rs 459,387.	It has been informed that action will be taken to rectify in preparing final accounts of the year 2021.	The revenue and the receivables relating to the year should be identified and brought to account accurately.
b) The revenue of rates and taxes received in cash during the year under review had been Rs 2,880,851 but it was posted to the rates and taxes account as Rs.3,369,959. As such the balance of the rates and taxes receivable account had been understated by Rs. 489,108	It has been informed that action will be taken to rectify in preparing final accounts of the year 2021.	The revenue relating to the year should be correctly identified and brought to account accurately.

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| c) | The revenue debtors which had not been brought to account in the preceding year had been brought to account twice during the year under review. As such the revenue debtors and the balance of the accumulated fund had been overstated by Rs.16,910,533 | It has been informed that action will be taken to rectify in preparing final accounts of the year 2021. | Action should be taken to rectify the accounts. |
| d) | The capital revenue and the capital expenditure receivables and payables for the works implemented under the provincial provisions during the year under review amounting to Rs.37,402,090 had not been accounted for. | It has been informed that action will be taken to rectify in preparing final accounts of the year 2021. | All transactions relating to the year should be accounted for. |
| e) | Despite that the capital grants receivable from the Provincial Council had been brought to account, again a sum of Rs.57,724,871 had been brought to account as bills of the year. As such capital grants receivables and the capital revenue of the year had been overstated by the same amount. | It has been informed that action will be taken to rectify in preparing final accounts of the year 2021. | Transactions relating to the year should be correctly identified and accounted for. |
| f) | Due to the errors in accounting of fixed deposits and the interest thereon, the balance of the accumulated fund had been overstated by Rs.45,727,680 and the operating revenue and the current assets had been understated by Rs.3,674,834 and Rs.7,349,668 respectively. | It has been informed that action will be taken to rectify in preparing final accounts of the year 2021. | Accounts should be rectified. |
| g) | The property, plant and equipment amounting to Rs.32,247,187 acquired during the year under review had not been capitalized. | It has been informed that action will be taken to rectify in preparing final accounts of the year 2021. | The fixed assets purchased during the year should be capitalized. |

- h) The operating expenditure, capital expenditure and the current liabilities relating to the year had been understated by Rs.213,234 Rs.681,079 and Rs. 894,313 respectively. It has been informed that action will be taken to rectify in preparing final accounts of the year 2021. The expenditure and the payables relating to the year should be correctly identified and brought to account.
- i) The receivables and payables for the works implemented in the preceding year totalling Rs.1,985,463 had not been brought to account and as such the debtors and creditors as at the end of the year had been understated by same amount. It has been informed that action will be taken to rectify in preparing final accounts of the year 2021. Action should be taken to rectify accounting errors relating to the preceding year.

1.6.2 Unreconciled Control Accounts or Reports.

<u>Subject</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
A difference of Rs. 136,379,964 was observed between the balances shown in the financial statements relating to 05 items of accounts and the balances shown in the subsidiary registers and the schedules thereon.	It has been informed that as there's difference in the opening balance action will be taken to obtain instructions to rectify it.	Action should be taken to rectify accounting errors relating to the preceding year.

1.6.3 Lack of written evidence for Audit.

<u>Subject</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
The particulars required for audit relating to 05 items of accounts totaling Rs. 8,931,176 had not been furnished.	It has been informed that, the balances of these accounts had remained for over a long period and there is no register was available to find particulars. As such this matter will be forwarded to Audit and Management committee to take a decision.	The evidence required to confirm the balances shown in the financial statements should be Furnished and action should be taken to identify these balances brought forward for a longer period and to settle.

2. Financial Review.

2.1 Financial Results

According to the financial statements furnished, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31st December 2020 amounted to Rs. 94,509,380 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 8,751,962.

2.2 Revenue Administration

2.2.2 Performance in Collection of Revenue.

<u>Audit Observation</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
a) <u>Rates and Taxes.</u>		
(i) The arrears of rates as at the end of the year under review amounted to Rs. 12,668,083.	It has been informed that, although a program of collecting of present arrears had been implemented by making lists and groups, above program had been suspended temporarily due to third wave of the Corona epidemic.	Actions should be taken timely to collect arrears of rates in terms of Provisions of the Pradeshiya Sabha Act.
(ii) The arrears of acreage tax as at the end of the year under review amounted to Rs. 515,889.	It has been informed that, the relevant formats has been given to the members of the Sabha to obtain the particulars of those lands and further action will be taken according to the details thereon.	A verification on acreage tax should be carried out and action should be taken to recover arrears of taxes.
b) <u>Court Fines and Stamp Fees.</u>		
The court fines and the stamp fees identified to recover from Chief Secretary and other authorities of the Provincial Council amounted to Rs.2,928,555 and Rs.9,704,283 respectively. Similarly, action had not been taken to identify the stamp fees revenue in the months of November and December2020.	It has been informed that, the Chief court fines and stamp fees identified as to be received had been requested from the office of the Assistant Commissioner of Local Government, but those are not received up to now. Action is being taken to identify stamp fees revenue which were not identified.	Action should be taken to identify the revenue receivable to the Sabha and to recover timely.

3. Operating Review.

The matters observed in respect of the activities, that should be carried out by the Sabha such as regularize and control over the matters of public health, public utility services, thoroughfares and the comfort, facilities and wellbeing of the people under Section 3 of the Pradeshiya Sabha Act are given below.

3.1 Uneconomic Transactions.

Audit Observation

A sum of Rs. 45,900 had been incurred to carry out a geological survey to construct a tube well, despite, that there were alternative methods to obtain water for the waste management project of Pohorabawa. But after receiving the research report the Sabha approval was not granted and as such the sum incurred of Rs. 45,900 had become a fruitless expenditure.

Comments of the Sabha

It has been informed that, the Sabha approval was not granted since the construction of the tube well in this place was a failure according to the research report and this tube well has to be constructed about 60 meters deep and as such this work of a construction of a tube well was not implemented.

Recommendation

Before incurring expenditure attention should be paid to carry out a proper study in respect of the requirement and the alternative methods to fulfil that requirement before