

## **Kebathigollewa 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 Kebathigollewa Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, including a summary of significant accounting policies, 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 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 accompanying financial statements give a true and fair view of the financial position of the Kebathigollewa Pradeshiya Sabha as at 31 December 2020, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **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 (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 Sri Lanka Public Sector Accounting Standards for Local Authorities, 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.

#### **1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 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 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 Other Legal Requirements

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

- (a) As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(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) Although the receipts from the government in respect of the recurrent expenditure for the year under review was Rs. 14,537,817, it had been brought to account as Rs. 14,336,078 in the statement of comprehensive income, thus understating the profit for the year by Rs. 201,739.	Accepted.	Correct value of the grant on recurrent expenditure should be brought to account.
(b) According to Notes to the Accounts No.06, the income from non-transferable transactions during the year under review was Rs. 5,318,827, it had been brought to account as Rs. 5,325,377 in the statement of comprehensive income, thus overstating the profit for the year by Rs. 6,550.	Accepted.	Correct revenue should be brought to account.
(c) The grant on capital expenditure of Rs. 33,807,707 received for the year under review had not been mentioned in the statement of assets and liabilities and as such, the value of equity had been understated by that amount.	Accepted.	All the capital grants received by the Sabha should be accounted for.
(d) Although the cumulative deficit account balance as at 31st December of the year under review was Rs. 549,789,459, it had been accounted for as Rs.572,792,233 in the	Accepted.	Correct equity value should be brought to account.

statement of assets and liabilities prepared as at that day and as such, the value of equity had been overstated by Rs. 23,002,774.

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| (e) | According to the journal entries, the debit effect on the accumulated fund from the adjustments for the previous period should have been Rs. 2,725,348, whereas it had been accounted for as a credit impact of Rs.8,274,774 in the Statement of Changes in net Assets / Equity. Therefore, the accumulated fund had been overstated by Rs. 11,000,122. | Accepted. | The impact on the accumulated fund should be accurately identified and brought to account.                                 |
| (f) | As a sum of Rs.1,093,330 spent by the Sabha during the year under review for constructions not belonging to the Sabha had been accounted for as fixed assets under the buildings of the Sabha, assets of the Sabha had been overstated by that amount.  | Accepted. | Only the buildings owned by the Sabha should be brought to account as fixed assets of the Sabha.                           |
| (g) | As the cumulative depreciation value had not been transferred to the elimination account when eliminating fixed assets, proceedings from the sale of fixed assets had been understated by Rs. 30,000.   | Accepted. | When eliminating fixed assets, the cumulative depreciation value thereof should be transferred to the elimination account. |
| (h) | Although an expenditure of Rs. 6,405,039 had been incurred on the construction of 35 culverts under 25 development projects during the year under review, it had been brought to account as fixed assets of Rs. 12,386,285 and as such, fixed assets had been overstated by Rs. 5,981,246.  | Accepted. | Accurate fixed assets value should be brought to account.  |
| (i) | According to the Statement of Assets and Liabilities as at 31 December of the year under review, cash and cash equivalents amounted to Rs.7,907,273, whereas it had been stated as net cash increase and the total of opening cash balance of Rs. 15,075,777 of the cash flow statement.  | Accepted. | Correct value should be brought to account.  |
| (j) | As a rent income of Rs.636,154 due for the year 2019 had been accounted for as an income for the year under review, profit for the year under review had been overstated by that value.   | Accepted. | Income relevant to the preceding years should be adjusted to the accumulated fund.   |

(k)	The administrative fee income of Rs. 119,778 due from the Kebithigollewa Divisional Secretariat in respect of the Sapirigamak project implemented during the year under review had not been brought to account.	Accepted.	Receivable income for the year under review should be brought to account.
(l)	Stamp duty revenue for the year under review had not been identified and brought to account.	Accepted.	Receivable income for the year under review should be brought to account.
(m)	As a sum of Rs. 37,870 received from the Elections Office for the reimbursement of expenses incurred for participating the officers of the Sabha in election duties had been brought to account as income for the year under review, income for the year under review had been overstated by that amount.	Accepted.	Receipts for the reimburse election expenses should not be taken into account as revenue of the Sabha.
(n)	As a sum of Rs. 770,342 received from the Local Government Department for two projects carried out in the year 2018 which were not accounted for as debtors as at 31st December of the year under review had been brought to account as a receipt from debtors for the year under review, industrial debtor balance had been understated by that amount	Accepted.	Correct debtors value should be brought to account.

### 1.6.2 Lack of Documentary Evidence for Audit

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#### Audit Observation

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Information required for the audit relating to an item of account totaling Rs. 13,087,914 had not been furnished.

#### Comment of the Sabha

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Accepted.

#### Recommendation

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Confirmations that the cash flow statements have been correctly prepared should be furnished.

## 2 Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 34,692,161 for the year ended on 31 December 2020 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 688,371.

## 2.2 Revenue Administration

### 2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
<b>(a) Rent</b>		
Necessary action had not been taken to recover the revenue of rent Rs. 915,884 due for the year under review.	Accepted.	Action should be taken to recover the arrears of rent.
<b>(b) Licence Fees</b>		
Action had not been taken to recover the arrears of trade licence fees of Rs. 94,820 recoverable as at 31 December of the year under review and environment licence charges of Rs. 380,000 receivable for 95 businesses.	Action will be taken to initiate legal action on the arrears.	Action should be taken to recover the relevant arrears.

## 03. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 03 of the Pradeshiya Sabha 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	Comment of the Sabha	Recommendation
(a) According to the Gazette Notification No. 2151 dated 22nd November 2019 a charge of one rupee per liter should be levied for the distribution of water. Nevertheless, the Sabha had not collected Rs. 564,000 due for 93 days water distribution carried out by a water bowser with a capacity of 8000 liters owned by the Sabha during the year under review.	Accepted.	Action should be taken to recover the charges in accordance with the relevant Gazette.

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| (b) | According to the Gazette Notification No. 2151 dated 22 November 2019, a sum of Rs. 1,298,100 should have been recovered for the use of backho loader of the Sabha for 432.7 hours during the year under review, whereas Rs. 647,900 only had been recovered as rental income. | Accepted. | According to the gazette notification, action should be taken to recover the revenue for driving on a rental basis. |
| (c) | Title certificates and plans for 286.5 acres of land valued at Rs. 361,725,000 used by the Sabha had not been submitted.   | Accepted. | These lands should be taken over by the Sabha and title certificates should be obtained.                            |

### 3.2 Idle or Underutilized Property, Plant and Equipment

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#### Audit Observation

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Although 46 shops had been constructed in the Kebithigollewa bus stand shopping complex premises at a cost of Rs. 45,000,000 in the year 2017, 19 shops remained idle even by 28 February 2022 due to objections of the members for open tenders.

#### Comment of the Sabha

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Accepted.

#### Recommendation

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Action should be taken expeditiously to lease the shops.