

Kekirawa Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kekirawa 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 Kekirawa 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

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

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)**

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

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

- 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.
- 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

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) A sum of Rs. 23,689,384 spent by the Kekirawa Divisional Secretariat on the repair of the gravel road during the year under review had been brought to account as a recurrent expenditure and recurrent grant of the Pradeshiya Sabha without being considered as the capital grant.	As these expenses have been incurred for the repair of roads belonging to the Sabha, they have been accounted for as expenses of the Sabha.	Only the expenditure incurred by the Sabha should be brought to account.
(b) Environmental license revenue for the year under review amounting to Rs. 260,000 had not been accounted for as income in the Statement of Comprehensive Income and as receivable income in the Assets and Liabilities Statement.	Accepted.	Accurate income for the year should be brought to account.
(c) A sum of Rs. 1,725,178 spent in the year 2019 for the construction of a building and purchase of a purification plant for the Mahawewa Drinking Water Project had been brought to account as the debtors and capital grants in that year and	Accepted	Only the expenditure relevant to the year under review should be brought to account.

it had been again accounted for as capital grants during the year under review.

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| (d) | Although the entertainment tax revenue for the year under review was Rs.90,005, it had been stated as Rs.123,664 in the financial statements, thus overstating by Rs. 33,659. | Accepted. | Accurate income should be brought to account. |
| (e) | Even though the rent to be received from Kekirawa Dairy Shop for the year under review was Rs. 36,000 according to the agreement, it had been stated as Rs.15,000, thus understating by Rs.21,000 in the financial statements. | Accepted. | Accurate income for the year should be brought to account. |
| (f) | Although the revenue of the crematorium for the year under review was Rs.1,115,000 according to the crematorium revenue register, it had been stated as Rs. 1,136,000, thus overstating by Rs. 21,000 in the financial statements. | Action will be taken to prevent such things from happening in the future. | Accurate income for the year should be brought to account. |

1.7 Non-compliance

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with laws,rules,regulations and management decisions are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
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Letter No. NCP / LG / DE / 04/04/2020 dated 28th August 2020 of the Commissioner of Local Government, North Central Province	Despite being instructed the Sabhal not to rent the machinery on credit basis, due to renting 04 machines of the Sabha on 240 occasions on credit basis, receivable machine rental income of Rs. 1,591,500 had not been recovered.	Accepted.	Action should be taken to recover the vehicle rent revenue.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 9,591,249 for the year ended on 31 December 2020 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 31,850,128.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) Rates and Taxes</p> <p>Arrears of rates amounting to Rs. 4,352,289 as at 31 December of the year under review had not been recovered.</p>	<p>Accepted</p>	<p>Action should be taken to recover the arrears of revenue.</p>
<p>(b) Rent</p> <p>Stall rent of Rs. 4,409,072 due as at 31 December 2020 had not been recovered.</p>	<p>Action will be taken in accordance with the Pradeshiya Sabha Act to recover this rent.</p>	<p>Action will be taken in accordance with the Pradeshiya Sabha Act to recover the rent.</p>

3. 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 Identified Losses

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) The Sabha had not taken action to get reimbursed the electricity bill of Rs. 119,009 receivable as at 20 June 2020 due to the use of the electricity meter belonging to the Sabha by the Urban Development Authority (the contractor) during the construction of</p>	<p>Accepted</p>	<p>Action should be taken to get the electricity bill Reimbursed.</p>

the new shopping complex in Kekirawa, \

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| (b) When publishing the bidding notices for the Pradeshiya Sabha office building construction project, the Sabha had to incur an additional expenditure of Rs.95,472 due to the publication of a newspaper advertisement on two occasions. | Accepted | Before submitting the newspaper advertisements for publishing, the need should be properly verified |
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3.2 Management Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Due to not taking action to repair 05 shops in the Sabha area within a period of more than one year and closure of those shops, the Sabha had lost Rs. 379,500 in revenue as at 30 November 2020.	Accepted	Action should be taken to generate revenue by repairing the shops.
(b) A sum of Rs. 5,752,291 remained idle in the State Bank Current Account (Pura Neguma) for more than a period of 03 years.	Accepted	Action should be taken to invest it as the fixed deposits.
(c) Lease revenue of Rs. 1,071,532 which had exceeded 02 years as at 31st December of the year under review had not been recovered even in the year under review.	Accepted	Action should be taken to recover the dues.
(d) Although Rs. 767,969 had been spent for the construction of the Kekirawa Ayurveda Building Project which had been started under direct labor with the provisions of Rs. 1,000,000 received in the year 2016, work worth Rs. 430,068 including wall painting, bathroom installation, installation and supply of electrical system, water supply, installation of aluminum windows and PVC doors had not been completed even as at 28 February 2021.	Accepted	Action should be taken to obtain the expected objectives of the construction projects.