

Kayts Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kayts Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Kayts Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2. Basis for Qualified Opinion

I expressed qualified opinion 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 Generally Accepted Accounting Practices, 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 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.

1.4 Audit Scope (Responsibility of the Auditor for the audit of 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 exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit 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 its 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 it 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 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is 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 except the audit matters of 1.6.1 (a) described in paragraph 1.6 of this report 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

Following observations are made.

Audit Observation	Comments of the Council	Recommendation
(a) Plant and machineries amounting to Rs. 519,874 donated by the Department of Local Government of Northern Province had not been brought to the financial statements, thus indicating the value of the fixed assets and capital reserve for capital expenditures understated the year under review.	plant and machineries had not been included in the financial statements because of the Goods issue order given by the Department of Local Government of Northern Province had not bearing the value for those donated items.	Action should be taken to confirm activities concluded, recorded accordingly as per accounting policies and the specified errors should be rectified.
(b) Even though a sum of Rs. 977,811 payables for the Local Loans and Development Fund in 2022, had been shown as Debt capital instead of current liabilities; thus indicating the current liabilities had been understated in the financial statements for the year under review.	Long term basis loan had been borrowed to construct the head office building for the council in 2012. Therefore, it had been shown as a Dept capital under Long Term Loan in the financial statements and the value of the building had been included in the Land and Building as fixed asset.	It should be shown timely as per accounting policies and action should be taken to show as current liabilities in future.
(c) Stocks of electric equipment aggregating to Rs. 42,877 had not been brought to the financial statements. Thus indicating the current assets and excess of revenue had been understated in the financial statements for the year under review.	Electric equipment stocks for the year 2021 had not been brought to the financial statement for the year 2021. Action will be taken to be included in the financial statements in future.	Action should be taken to confirm activities concluded, recorded accordingly as per accounting policies and the specified errors should be rectified.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 5,073,029 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 10,236,599 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the council	Recommendation
(a) Rate and Taxes Action had not been taken to recover the rate and tax on Land, houses, buildings and buildings constructed belonging to the places vested for pradeshiya sabha in terms of section 134 (i) of Pradeshiya sabha Act. No.15 of 1987.	Action is being at final stage to rating assessment by the department of valuation in terms of section 134 (i) of Pradeshiya Sabha Act No.15, once after the actions completed will be recovered the rate and tax on Land, houses, buildings and buildings constructed belonging to the places vested for pradeshiya sabha.	Action should be taken to strengthening the revenue collection management and collection of revenue arrears efficiently.
(b) Rent 11 shops had been rented out on long term lease basis, had not been leased during the year under review. Thus indicating are venue loss of Rs. 139,200 to the council.	Even though the tender had been called by newspapers and local advertisements, unable to lease the shops; had been given for lease in 2022.	Action should be expedited regarding the specific arrears.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Following observations are made.

Audit Observation	Comments of the Council	Recommendation
(a) 05 markets and 11 shops which had been called for tender as usual, had not been called for tender over 02 years. Thus, indicating are venue loss of Rs. 870,100 to the council.	Even though it had been advertised by calling tender for above markets and shops, had not been taken by anybody.	Revenue should be collected by using the assets of the council.

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| <p>(b) A sum of Rs. 26,891,013 had been deposited in a fixed deposit account for the purpose of earning interest without being implemented development works</p> | <p>Development works for the value of Rs. 4,700,000 is being carried out, a sum of Rs. 408,038 for the cemetery renovation and net fitting works for the Kannakai Amman dock Rest hall had been allocated from the development reserves in 2019.</p> | <p>Action should be taken to utilize the council fund for the performance activities optimally without being idled.</p> |
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3.2 Assets Management

Audit Observation	Comments of the Council	Recommendation
<p>Ownership of 14 vehicles, 10 lands and 09 cemeteries had not been belonging to the council even up to now.</p>	<p>Ownership of 12 motor vehicles valued to Rs. 10,322,600 had not been transferred to the council during the year under review, had been received the valuation of 04 lands and will be included in the accounts in future. Action is being taken on rest of those.</p>	<p>Action should be expedited to make the assets are being utilized by the council as belonging to the council.</p>

3.3 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
<p>Officer's security bond amounting to Rs. 30,000 (15,000 X 2) had not been recovered from 02 Revenue Supervisors even up to end of the year under review in terms of provincial finance circular No. PF/01/2017 (a) of 07 March 2020.</p>	<p>02 officers had been vacated their posts and other two officers had been retired and action is being taken to recover in terms of provincial finance circular No. NP/09/A&P/04/12/CIR/2020; other two officers had been retired and the Form PD3 had been forwarded to the Director General of Pensions enable to recover their balances from Pension Gratuity.</p>	<p>Action should be taken to recover the security bond.</p>