

Kakirawa Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kakirawa Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 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 Kakirawa Pradeshiya Sabha as at 31 December 2021, 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 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 Government 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 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 Scope of Audit (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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) The following recommendations made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Non-compliance with Sri Lankan Public Sector Accounting Standards for Local Authorities

Non-compliance with reference to relevant standard	Comment of the Council	Recommendation
Budgeted information should be presented with the financial statements for the period in the budget documents in accordance with Sri Lanka Public Sector Accounting Standard No. 3.7 for Local Government institution, however the financial statements of the Pradeshiya Sabha were presented without budgeted information	Agreed.	Action should be taken in accordance with the Sri Lanka's Public Sector Accounting Standard for Local Authorities No. 3.7.

1.6.2 Accounting deficiencies

Audit Observation	Comment of the Council	Recommendation
Although the Capital Expenditure Allowances not included in surplus or (deficit) as per statement of changes in net assets/equity should be Rs.140,620,280 as of 31 December 2021, however it had been shown as Rs.207,724,902.	Agreed.	The balance of the statement of changes in net equity should be correctly shown.

1.6.3 Unreconciled control account or report

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.55,106,734 between 04 accounting items as according to the values in the schedules and the values mentioned in the statement of assets and liabilities.	Action will be taken to rectify in future.	Action should be taken to identify the reason for the change and the balance should be rectified.

1.7 Non-compliances

Non-compliance with the Laws, Rules, Regulations and Management decisions

Instances of non-compliance with the Laws, Rules, Regulations and Management decisions are given below.

	Reference to laws rules and regulations	Non-compliance	Comment of the Council	Recommendation
(a)	The Circular No.30/2016 of Public Administration dated 29 December 2016	05 using vehicles owned by the council had not been tested for fuel consumption	Agreed.	Action should be taken according to the Public Administration Circular.
(b)	The letter No. NCP/LG/DE/04/04/2020 of the North Central Provinces, Local Government Commissioner dated 28 August 2020.	Despite instructions not to rent out the council's machinery and equipment on loan basis, arrears of Rs.3,488,150 had to be recovered due to the council's machinery being given on loan basis and detailed schedules and debtor period analysis related to machine rental had not been maintained.	Action will be taken to recover this amount in the future.	Action should be taken to recover promptly all arrears.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2021 amounted to Rs.25,931,467 as compared with excess of recurrent expenditure over revenue amounted to Rs.9,591,249 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance of Revenue Collection

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Tax Arrears of assessment as of 31 December of the year under review amounting to Rs.4,248,043 was not recovered.	Action will be taken to collect the remaining due amount.	Action should be taken to collect all arrears according to the Act.
(b) Rent A receivable amount of Rs.2,126,301 for leasing assets and rent amounting to Rs.1,132,400 as at 31 December 2021, had not been recovered.	Action is being taken to collect the due amount according to the decisions of legal actions.	Action should be taken to recover the relevant arrears.
(c) License Fees		
(i) Environmental licenses were not obtained in 2021 and the previous year, as such an income amounting to Rs.272,000 was not recover.	Action will be taken to recover the remaining due amount.	Action should be taken to recover all arrears.
(ii) The arrears of Display board income in relation to 05 institutions amounting to Rs.170,000 should have been recovered as at 31 December of the year under review.	Agreed.	Action should be taken to promptly recover the arrears of billboard revenue.

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

	Audit Observation	Comment of the Council	Recommendation
(a)	Action had not been taken to recover the arrears balance of machine rent of Rs.3,488,150 as at 31 December of the year under review.	Agreed.	Action should be taken to promptly recover the arrears of machine rent.
(b)	The action had not been taken regarding the recovery of entertainment tax of Rs.773,887 which was older than 10 years.	Agreed.	Action should be taken to promptly recover outstanding balances.
(c)	Action had not been taken to recover a distress loan balance of Rs.334,410 due from two persons due to leaving service.	Agreed.	Necessary action should be taken to recover promptly the balance.

3.2 Idle or underutilized property, plant and equipment

	Audit Observation	Comment of the Council	Recommendation
(a)	The waste management yard and 04 biogas tanks that were built during 2004 and 2005 at the cost of Rs. 2,500,000 in Ambulgaswewa area remained idle without being utilized.	Biogas tanks are being considered for use.	Necessary action should be taken to take these assets to use.
(b)	06 buildings owned by the council amounting to Rs. 8,751,000 remained idle for several years without being utilized.	Agreed.	Necessary action should be taken to use the relevant buildings.

3.3 Deficiencies in Contract Administration

	Audit Observation	Comment of the Council	Recommendation
(a)	02 projects under the Regional Infrastructure Development Project for which the allocation amounting to Rs.7,934,927 was approved by project Numbers NCP/BP/120 and NCP/BP/122 were abandoned as at 31 December 2021, due to lack of proper procurement.	Agreed.	The procurement related to the projects should be done properly and the allocations should be utilized at the maximum level.

- | | | | |
|-----|--|---|--|
| (b) | 98 interlock laying projects with an estimated contract value of Rs.135,000,000 to be implemented under the Rural Road Development Project in the year 2021 only 04 had been started however it was not confirmed whether the rest of the projects would be decommissioned or cancelled. | The ministry that provided the allocation has not notified that these projects have been decommissioned or cancelled. | Action should be taken to obtain confirmation on whether the remaining projects will be decommissioned or cancelled. |
|-----|--|---|--|

4. Accountability and Good Governance

Environmental problems

Audit Observation

An amount of Rs.50,000 was allocated in the annual budget for solid waste management and included in the action plan in the year under review, however only Rs.995 was spent on waste management. Also, the degradable and non- degradable garbage generated in the council area of authority is disposed of in an open location in Ambulgaswewa area without sorting, and due to the constant presence of wild elephants and other animals at that location, their lives as well as the environment is being damaged.

Comment of the Council

Agreed. Necessary action will be taken to recycle garbage after the formal construction of the garbage unit is completed.

Recommendation

A proper waste management process should be implemented.