

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kurunegala Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, and cash flow statement 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 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 Kurunegala Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 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 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.

- 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.
- 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
<p>(a) The non-capitalization of capital expenditure of Rs. 6,051,334 that had been stated under the accounting deficiencies in auditing financial statements of the preceding year had not been corrected even in the year under review.</p> <p>(b) A sum of Rs. 33,525,755 spent during the year under review for the development of buildings and purchase of equipment worth Rs. 5,618,844 had not been capitalized.</p> <p>(c) Thirteen Lands worth Rs. 49,113,750 and 09 lands of which value had not been identified and owned by the Sabha as at 31 December of the year under review had not been stated in the financial statements.</p>	<p>It is informed that the correction will be made in the financial statements of the year 2022.</p>	<p>Accuracy should be ensured in accounting.</p>

<p>(d) As 13 development projects worth Rs.17,029,606 that had not been implemented during the year under review had been brought to account, capital expenditure and industrial debtors had been overstated by that amount in the account.</p>	<p>It is informed that the correction will be made in the financial statements of the year 2022.</p>	<p>Accuracy should be ensured in accounting.</p>
<p>(e) Although the loan balance of the Local Loan and Development Fund as at 31 December of the year under review was Rs. 4,388,051, it id been stated as Rs.5,501,093, thus overstating by Rs. 1,113,042 in the financial statements.</p>		
<p>(f) The revenue of 03 items of revenue of the year under review had been overstated by Rs. 36,239,357 in the financial statements.</p>	<p>It is informed that relevant corrections will be made in the financial statements of the ensuing year.</p>	<p>Revenue should be accounted for correctly.</p>
<p>(g) A sum of Rs. 2,843,998 of 06 items of revenue relating to the year under review had been understated, while transport connections and other service expenditure had been understated by Rs.177,000 in the financial statements.</p>		
<p>(h) Although the arrears of fixed deposit interest income as at 31 December of the year under review was Rs.813,853, it had been stated as Rs.477,458, thus understated by Rs.336,395 in the account.</p>		

1.6.2 Contingent Assets and Liabilities

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
<p>The Sabha had filed cases against 02 parties as at 31 December of the year under review and legal charges of Rs.55,195 had been paid thereon. Although Rs.494,140 had been spent on the cases filed by 04 parties against the Sabha, it had not been disclosed in the financial statements.</p>	<p>Expenditure on legal charges have been stated under the other services.</p>	<p>Contingent assets and liabilities should be disclosed in the financial statements.</p>

1.6.3 Suspense Accounts

Audit Observation	Comment of the Sabha	Recommendation
A Suspense account with a debit balance of Rs. 291,909 had been stated in the financial statements of the year under review.	Corrections will be made by the financial statements of the year 2022.	The Suspense account should be checked and corrected.

1.7 Non-compliance

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

Reference to laws, rules, regulations and management decisions	Non-compliance	Comment of the Sabha	Recommendation
(a) Section 126 (f) of the Pradeshiya Sabha Act No.15 of 1987.	An amount of Rs.385,000 had not been recovered from 06 billboards installed within the jurisdiction of the Sabha.	Charges had not been recovered for 06 billboards installed within the jurisdiction of the Sabha as pointed out by the Audit.	All the billboards should be surveyed at the beginning of the year and charges should be recovered accordingly.
(b) Section 03 (v) of the Circular No.2015/01 dated 02 November 2015 of the Commissioner of Local Government, North Western Province.	Even though the maximum expenditure limit for the medical aid is Rs.25,000, aid of Rs.1,068,928 had been provided to 02 persons in excess of the said limit.	Financial assistance has been granted on the approval of the Financial Committee and the Hon. Governor.	The limits stated in the circular instructions should be followed.
Sub-section 3(I)	The maximum assistance limit that can be provided for the constructions of a temple is Rs.20,000, assistance of Rs.500,000 had been granted exceeding that limit. The Technical Officer of the Sabha had not prepared an estimate before providing financial assistance and no supervision had been carried	It is informed that having obtained a report from the Technical Officer as pointed out by the Audit, action has been taken to provide assistance under that supervision.	Assistance should not be provided in excess of the circular limit and follow up measures should be taken to ensure that relevant task has been done after providing the assistance.

out to check whether the relevant task has been properly implemented after providing the financial assistance.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 153,025,836 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 147,319,946.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
An amount of Rs. 9,503,995 had not been recovered from 8,981 assessment units as at 31 December of the year under review.	It is informed to the Audit that further action will be taken to recover the revenue in arrears in the future.	Arrangements should be made to recover the arrears and thereby, revenue in arrears should be recovered.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha 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) Although an extent of land containing 03 acres 2 roods and 20.1 perches of the Helgamawatta auction should have been received for public purposes, the land given for the public purposes had not been enclosed with a barbed wire fence to protect the land. Although all development activities, that is, construction of roads, ditches and culverts should have been carried out and thereafter, approval for the plan should be obtained, the audit observed that the blocks of land were being sold without fulfilling the above requirements.	It is informed that since the Bamunawala Grama Niladharee division in the jurisdiction of this Sabha is an area belonging to the Urban Development Authority, the approval for this project has been granted on the basis of providing the Certificate of Conformity by the Urban Development Authority once all the deficiencies of the project are completed according to the approval of the Planning Committee.	Once the all common amenities are provided, the Certificate of Conformity should be issued for auctioning lands and approval should be given to sale the blocks.
(b) In dividing lands in to blocks, a land situated at Manelwatta, Kahatapitiya had been so divided into blocks without approving a plan. It is observed that the failure of the authorities of the Sabha to draw attention on the development of this land situated near a main road is an irresponsible act. Eight blocks of this land had been sold by the date of inspection on 06 April 2022. No action had been taken to recover about Rs. 2,066,568 as the 1 per cent income for dividing the land into blocks.	The Technical Officers have been instructed to inspect the unauthorized division of lands into blocks in the jurisdiction of the Sabbha and to inform the auctioneers to carry out auctions by obtaining the legal permission, and the relevant institution has already been informed to hand over the necessary applications to obtain approval to this Sabha.	Lands should be divided by obtaining approval. The 01 per cent sale tax income should be duly recovered.

3.2 Transactions of Contentious Nature

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
Although a cheque worth Rs. 200,000 had been given in August 2021 to purchase desks and chairs for a temple,	Once the request made by the <i>Dayaka Sabhawa</i> of the temple on 02.02.2021 to provide a financial assistance	Although cheques had been issued desks and chairs had not been purchased. Follow up measures should be taken

it was observed at the spot inspection carried out on 07 April 2022 that these desks and chairs had not been obtained for the dhamma school and old desks and chairs were available in the dhamma school.

to make desks and chairs to the dhamma school was submitted to the financial and policy committee held on 02.02.2021, it has been decided to provide assistance of Rs.200,000 under the approval of the Governor.

to ensure that the relevant task was completed.