

## **Kinniya Pradeshiya Sabha - 2021**

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### **1. Financial Statement**

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#### **1.1 Disclaimer Opinion**

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The audit of the financial statements of the Kinniya Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, 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 provisions of Sub Section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

Due to the effects of the matters described in Paragraph 1.6 of this report, in my opinion, the accompanying financial statements don't give a true and fair view of the financial position of the Kinniya 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 Principles.

#### **1.2 Basis for Disclaimer of Opinion**

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My opinion is disclaimed 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 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 Generally Accepted Accounting Principles 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.

#### **1.4 Audit Scope (Responsibility of the Auditor for the audit of 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 exercised professional judgment and maintain professional skepticism 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

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

- (a) The financial statements of the Pradeshiya Sabha is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Accounting Deficiencies

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Audit Observations -----	Comments of the Sabha -----	Recommendations -----
(a) Although the closing balance of the accumulated fund in the balance sheet of the last year was Rs. 1,568,165, the opening balance of the year under review was brought forward in the account as Rs. 8,397,438, thus the accumulated fund had been overstated by Rs. 6,829,273.	Action will be taken to rectify in the final accounts of the year 2022.	Action should be taken to confirm the accuracy of the amounts in the financial accounts.
(b) The balance of the accumulated fund account had been understated by Rs. 9,166,416 due to debiting instead of crediting excess of revenue of Rs. 4,583,208 for the year under review in the accumulated fund account.	It is an accounting deficiency caused by error. It will be rectified very soon.	Steps should be taken to prepare and present the financial statements properly.
(c) Due to the non-inclusion of Rs. 5,901,949 in expenditure on provincial specific development fund grant (PSDG) projects and local development support projects (LDSP) in the financial statements, the expenditure for the year under review had been understated by Rs. 5,901,949 and the profit had been overstated by the same amount.	I inform that it will be included in the revenue account.	Steps should be taken to include the expenses in the income and expenditure account and prepare and present the financial statements properly.

## 1.6.2 Un-reconciled Control Accounts

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<b>Audit Observations</b>	<b>Comments of the Sabha</b>	<b>Recommendations</b>
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As per the balance sheet as at the end of the year under review, the creditor balance as at 31 December 2021 was Rs. 2,818,291, but as per the creditor register, that balance was Rs. 2,925,091, thus there was a difference of Rs. 106,800.	The Sabha had decided to write off this balance.	Steps should be taken to reconcile the difference.

## 1.7 Non-compliances

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

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<b>Reference to Non-compliance with Laws, Rules, Regulations and Management Decisions etc.</b>	<b>Non-compliance</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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(a) Pradeshiya Sabhas Act No. 15 of 1987			
(i) Section 24	No steps had been taken to identify the roads belonging to the Pradeshiya Sabha and take them over.	Steps have been taken to publish these roads in the gazette as soon as possible.	Steps should be taken to identify the roads and adopt them.
(ii) Section 126	No steps have been taken to collect fees for advertisement boards installed in the Pradeshiya Sabha area.	We will take appropriate action regarding the advertisement boards and inform you.	Action should be taken in accordance with the Pradeshiya Sabha Act.
(b) Section 193 of Chapter X of the Pradeshiya Sabhas (Financial and Administration) Rule of 1988	A statement containing explanations for variances comparing income and expenditure information with the budget plan had not been prepared.	In the future, steps will be taken to prepare these statements according to the prescribed financial and administrative rules on your advice.	Steps should be taken to act according to the Pradeshiya Sabhas (Financial and Administrative) Rule.

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| (c) | Financial Regulation 1646 of the Democratic Socialist Republic of Sri Lanka                                   | Original copies of daily vehicle running charts and monthly summaries of 13 vehicles in use by the Sabha had not been forwarded for audit monthly before the 15th of the following month. | Action will be taken to forward original copies of the daily vehicle running charts and monthly summaries of all vehicles in the Sabha in the following month promptly. | Action should be taken to comply with the provisions of the financial regulations. |
| (d) | Paragraph 3.1 of Circular No. 30/2016 of Ministry of Public Administration and Management of 29 December 2016 | Fuel consumption had not been tested for 07 vehicles in use of the Pradeshiya Sabha.  | A fuel consumption will be tested for these vehicles as soon as possible.   | Appropriate action should be taken as per circular.                                |
| (e) | Provincial Financial Circular No. PT/03/2021 of 16 August 2021 and Financial Regulation 880                   | Security deposit had not been obtained from the officers working in the Pradeshiya Sabha, whose security deposit should be obtained.  | In this regard, steps will be taken as per the instructions of the appropriate authorities.   | Action should be taken as per relevant circular and financial regulation.          |

## 2 Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, expenditure over recurrent revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 4,583,208 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 6,829,272.

### 2.2 Revenue Administration

#### Performance in Collection of Revenue

Audit Observations	Comments of the Sabha	Recommendations
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(a) Rates and Taxes		
----- According to Section 158(1) of the Pradeshiya Sabhas Act No. 15 of 1987, assessment tax had not been assessed and collected from immovable property in the Pradeshiya Sabha area for over 5 years.	This amount had been shown in proposed value.	Assessment tax collection activities should be initiated.

(b) Rent

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| (i) Action had not been taken to recover lease income amounting to Rs. 7,382,901 even as at the end of the year under review from lessees for the period from 2007 to 2021. | The Sabha has decided to examine and write off it properly.                                       | Steps should be taken to recover lease rent.                                       |
| (ii) Although the rent income for the year under review was Rs. 4,814,648 as per shop rent agreement, out of which a sum of Rs. 1,505,585 had only been collected.          | In this regard, the relevant accounts will be examined properly and further action will be taken. | Appropriate steps should be taken to collect the arrears of rent as per agreement. |

**3. Operational Review**

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**3.1 Management Inefficiencies**

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**Audit Observation**

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No action had been taken regarding advances of Rs. 380,484 over 08 years.

**Comment of the Sabha**

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The Sabha has decided to write off.

**Recommendation**

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Steps should be taken to write off this value from the books or recover it without delay.

**3.2 Operating Inefficiencies**

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**Audit Observation**

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By-laws could have been enacted to fulfill 30 main matters under section 126 of the Pradeshiya Sabhas Act No. 15 of 1987. However, by-laws were only enacted for 05 matters even as at 31 December 2021.

**Comment of the Sabha**

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Apart from 05 by-laws published in the gazette, steps are being taken to prepare by-laws for other matters.

**Recommendation**

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Action should be taken to enact the by-laws on related matters and do supervising activities.

**3.3 Assets Management**

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**Audit Observation**

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(a) Idle or underutilized assets

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07 assets belonging to 05 categories owned by the Sabha were not used for appropriate needs for a period of 03 months to 05 years.

**Comment of the Sabha**

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Appropriate action will be taken on consideration of this.

**Recommendation**

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Actions should be taken to utilize assets.

- (b) Assets that have not transferred ownership

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 According to the Circular No. MF/CO/02(cir) of treasury deputy secretary dated 10 October 2018, the Sabha had not taken action to obtain the ownership of the use of 09 vehicles that are not owned by it at the end of the year under review.

Actions have been taken to transfer ownership of all vehicles to the name of the Sabha.

Actions should be taken to obtain ownership of the use of vehicles.

- (c) Annual Board of Survey

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 In the physical inspection, there was a shortage of 97 items belonging to 13 categories and an excess of 143 items belonging to 07 categories in the stores of the Sabha.

A formal investigation will be conducted in this regard and appropriate action will be taken accordingly.

Appropriate measures should be taken to strengthen stock control.

### 3.4 Delays in Projects, Activities or Capital Works

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#### Audit Observation

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Under the solid waste management project, the solid waste collection center was built in the period from 2011 to 2017 by spending a sum of Rs. 27,272,144. However, its operations had not been started even as at the end of the year under review, thus it could not be achieved the desired results.

#### Comment of the Sabha

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We have taken steps to implement this project as soon as possible.

#### Recommendation

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Appropriate action should be taken to achieve the objectives of the Sabha.

### 3.5 Procurement Management

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#### Audit Observation

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As per the guideline no. 4.2.1(a) of the procurement guidelines 2006, a procurement plan was not prepared for the supplies and services of the Pradeshiya Sabha in the year under review.

#### Comment of the Sabha

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Steps will be taken to prepare and implement this procurement plan continuously in the future.

#### Recommendation

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The procurement plan should be prepared properly.

### 3.6 Human Resources Management

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) There were vacancies for the posts of secretary and librarian of the Sabha,	The concerned authorities have been informed about this.	Officers should be appointed as per the requirement of approved cadre.

### 3.7 Vehicle Fleet Management

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Although the board of survey had recommended to sell 06 vehicles by auction out of 19 vehicles worth Rs. 18,799,710 belonging to the Sabha and to repair 02 vehicles, no appropriate action had been taken for more than 03 years.	Kindly inform that it will be sold by auction.	Appropriate measures should be taken regarding assets control.

## 4. Accountability and Good Governance

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### 4.1 Submission of Financial Statement

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The annual performance report had not been submitted along with the financial statements in terms of sub-section 16(2) of the National Audit Act No. 19 of 2018.	Action will be taken to submit before the due date.	The provisions of the audit act shall be complied with.

### 4.2 Internal Audit

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The Sabha had appointed an internal auditor and a salary of Rs. 496,275 had been paid within one year. However, no audit work had been carried out during the year under review.	It has been instructed to conduct the internal audit regarding the financial administration of the Sabha.	Steps should be taken to conduct adequate internal audit.



### 4.3 Sustainable Development Goal

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#### **Audit Observation**

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According to Sustainable Development Act No. 19 of 2017, an agenda of the sustainable development goals to be achieved in the year 2030 had not been prepared by the Sabha.

#### **Comment of the Sabha**

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The Sabha has made a decision about achieving sustainable development goals and informed all employee groups regarding their implementation.

#### **Recommendation**

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Action should be taken in accordance with the circular.