

Kuchchaveli Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kuchchaveli 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.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kuchchaveli 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 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 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)

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

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

1.6.1 Accounting Deficiencies

Audit Observations -----	Comments of the Sabha -----	Recommendations -----
(a) In calculating the balance of sundry creditors of the Sabha, the account was overstated by Rs. 1,837,746 due to accounting for the entire contract amount as payable without accounting for final payment for the years 2019 and 2020 as payable.	The sundry creditor balance will be rectified in the final account of the year 2022.	It should be properly accounted for.
(b) As the insurance amount of Rs. 2,500,000 received for the vehicle accident in the year 2018 had been shown in the accounts as income for the year under review without making adjustments in the accumulated fund account, the income for this year was overstated by that amount.	The error will be rectified from the accumulated fund account in the final accounts of the following year.	It should be properly accounted for.
(c) As the opening debit balance of Rs. 2,056,485 of the accumulated fund account for the year under review had been brought forward as a credit balance in the ledger account, the closing balance had been overstated by Rs. 4,112,970.	It will be corrected in the final accounts of the following year.	It should be properly accounted for.

1.6.2 Un-reconciled Control Accounts

Audit Observations	Comments of the Sabha	Recommendations
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(a) Difference of Rs. 7,592,731 was observed between the schedule of arrears income of the Sabha for the year under review and the income for the year in the income and expenditure account.	Only the value received as income was shown in the accounts. The unrealized value is mentioned in the outstanding balance details as arrears.	Actions should be taken to rectify the differences.
(b) A difference of Rs. 1,658,002 had been identified between government revenue subsidy account for capital expenditure of the year under review and fixed assets.	This error will be corrected in the final accounts of the following year.	

1.6.3 Non-submission of Documentary Evidences for Audit

Audit Observations	Comments of the Sabha	Recommendations
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Schedules, bank confirmations, bank statements, etc. had not been submitted to the audit to confirm the correctness of the items of Rs. 33,404,860 stated in the financial statements.	These balances have been shown in the accounts for more than 10 to 15 years. There is no documentation on this. Also, it will be discussed in the meeting of the management committee and action will be taken to write off or settle it.	Documentary evidences for confirming the balance shown in the financial statements should be submitted.

1.7 Non-compliances

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

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

Reference to Non-compliance with Laws, Rules, Regulations and Management Decisions etc.	Non-compliance	Comment of the Sabha	Recommendation
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(a) Section 193 of Chapter X of the Pradeshiya Sabhas	of A statement containing explanations for	Steps will be taken to prepare the relevant statement.	Action should be taken as per Pradeshiya Sabhas

(Financial and Administration) Rule of 1988 variances had not been prepared comparing the details of income and expenditure with the budget.

Financial and Administrative Rule.

(b) Other circular

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| (i) | Local Government Circular No. 2018/e 01 of 19 July 2018 | The citizens were not provided with the facilities to receive services through the internet. | Action is being taken to provide facilities to receive services through the internet. | } Action should be taken as per circular. |
| (ii) | Provincial Finance Circular No. PT/03/2021 of 16 August 2021 | Security deposits were not collected from the liable officers performing the duties of the Praseshiya Sabha. | At present, arrangements have been made to obtain the security deposits. | |
| (iii) | Circular No. 128 of the Department of National budget of 24 march 2006 | A procurement plan for the year under review had not been prepared by the Sabha. | It will be prepared in the near future. | |

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.50,869,884 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 17,530,213.

3. Operational Review

The matters observed in respect of execution of activities that should be executed by the Sabha under Section 3 of the Pradeshiya Sabhas Act such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

3.1 Management Inefficiencies

Audit Observations	Comments of the Sabha	Recommendations
(a) The management had not maintained the fixed assets register, land title deeds and detailed schedules etc. in respect of total non-current assets of Rs. 220,080,533 shown in the final accounts of the Sabha for the year under review properly. Due to this, their physical presence could not be confirmed in the audit.	It has been corrected properly and maintained all other fixed assets in the fixed assets register at present.	Fixed asset register, land title deeds and detailed schedules etc. in respect of non-current assets should be maintained properly.
(b) A sum of Rs. 01 million had been allocated under the financial allocation of the honourable Governor for the activities of organic fertilizer production and operational activities had been started. However, the production and sales of fertilizers were not implemented in the year under review. Due to this, an expenditure incurred for this operation was a fruitless expenditure.	Action had been taken to collect garbage and produce the organic fertilizer.	Steps should be taken to start the production of organic fertilizers in due time.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
By-laws should be enacted to fulfill 30 main matters under Section 126 of the Pradeshiya Sabhas Act No. 15 of 1987. However, by-laws were enacted for only 05 matters even as at 31 December 2021. Due to this, the Sabhal had lost the income due to other 25 by-laws.	By-laws will be approved for future sources of income.	Steps should be taken to implement the remaining by-laws.

3.3 Assets Management

Audit Observations	Comments of the Sabha	Recommendations
According to the request made by the Chairman of the Pradeshiya Sabha by the Letter No. KUPS/Hire.V/2020 dated 10 September 2020, a vehicle was hired through the procurement process and a payment of Rs. 2,172,672 was made from the fund of the Sabha for the usage of 72,422 Km in the year under review without any running charts, exit gate pass, etc., thus the reliability of using this vehicle could not be confirmed in the audit.	The vehicle was taken on rent due to office requirements.	Steps should be taken to maintain records properly.

3.4 Delays in Projects, Activities or Capital Works

Audit Observations	Comments of the Sabha	Recommendations
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(a) A sum of Rs. 2,772,615 had been spent for the projects implemented from the funds of the Sabha in the year under review, but instances that the output level had not been achieved on the date of completion as per the agreement was observed in the audit.	Due to the current economic crisis in the country and the increase in the prices of goods, measures have been taken to get the approval of the council to terminate the agreement and re-contract.	Steps should be taken to complete the projects on time.
(b) There was a delay in the completion of 08 road development projects with a contract value of Rs. 13,885,083 executed by the Sabha in the period of 2021 with the financial contribution of the ministry of internal roads and road structures and although the last date for these projects was 31 December 2021, until that date on average only 40 per cent of the projects were completed. Also, the approval to be obtained for the related time extension was not obtained from the relevant authorities. Due to this, the people who expected to get benefits from the road development did not receive the benefits in the prescribed time frame.	The project of constructing the drainage system in ikpal city had been completely completed. Steps have been taken to terminate the contracts of other abandoned projects and to blacklist the respective community centers.	Steps should be taken to complete the projects on time.

3.5 Human Resources Management

Audit Observation	Comment of the Sabha	Recommendation
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Employee Vacancies and Excesses		
----- No action had been taken during the year under review to fill 22 vacancies including 10 vacancies at the primary level and 12 vacancies at the secondary level.	Action is being taken to fill the vacancies of the cadre.	Steps should be taken to appoint relevant officers.

4. Accounting Responsibility and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comment of the Sabha	Recommendation
The financial statements had been submitted with delays of 01 month and 08 days for audit contrary to Eastern Provincial Treasury Circular No. PT/14/2021 dated 25 October 2021, Also, the annual performance report had not been submitted with the financial statements in accordance with subsection 16(2) of the National Audit Act No. 19 of 2018.	Steps will be taken to submit the annual performance report along with the financial statements.	Action should be taken as per the circular.

4.2 Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
The Central Environmental Authority had filed a case against the Sabha on 05 July 2019 regarding the damages caused to the environment by the slaughterhouses located in Pulmotte which comes under the purview of the Sabha. The Sabha has not taken any proper action on this.	No further action can be taken due to ongoing regulatory proceedings. Appropriate action will be taken after the case is closed.	Measures should be taken to prevent environmental damage from slaughterhouses.

4.3 Sustainable Development Goal

Audit Observation	Comment of the Sabha	Recommendation
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 and any progress activities had not been implemented on it.	The Sabha has informed the concerned officer to prepare agenda for the sustainable development goals in the future.	Action should be taken as per the circular.