

## **Bulathsinhala Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Bulathsinhala Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in equity, 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 and the Provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Bulathsinhala Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **1.2. Basis for Qualified Opinion**

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I express qualified opinion 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**

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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 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 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 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

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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 recommendations which I made on financial statements for the preceding year are included 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

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### 1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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Non-compliance with Reference to the relevant Standard	Comments of the Sabha	Recommendation
<p>(a) It was observed that the cash flow statement for the year under review had not been prepared in accordance with Sections from 3.27 to 3.32 of the Standard as per the matters mentioned below.</p> <ul style="list-style-type: none"><li>Although the capital grants recognized in surplus or deficit was Rs. 7,793,058 , as it was mentioned as Rs. 28,750,206 under operating activities, it had been overstated by Rs.20,957,148.</li><li>Although the increase in payables amounting to Rs.20,917,173 should be added under operating activities, it had been deducted and shown in the financial statements.</li><li>Although the decrease in other current liabilities amounted to Rs.2,493,210 should be deducted under operating activities, it had been added and shown in the accounts.</li><li></li></ul>	<p>Actions will be taken to correct in the final accounts of the year 2022 .</p>	<p>Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.</p>

- Although the purchase of property, plant and equipment made in cash during the year was Rs. 2,659,354, it had been understated by Rs.1,638,504 under investment activities stating as Rs.1,020,850 .
- (b) Although an asset should be depreciated on its cost less accumulated depreciation and residual value, in terms of Section 6.10 of the Standard, the residual values of assets had not been estimated in calculating depreciation for the year under review.
- (c) Although the disclosure of provisions should be made in terms of 11.9 of the Standard, it had not been disclosed in respect of the compensation amount of Rs. 2,170,000 payable as at 31 December 2021 in relation to the case filed against the Sabha by the Real Estate Trading Pvt. .

Actions will be taken to correct in the final accounts of the year 2022

Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.

### 1.6.2 Accounting Deficiencies

Non-compliance with Reference to the relevant Standard	Comments of the Sabha	Recommendation
<p>(a) Thirty lands owned by the Sabha had not been assessed and accounted for.</p> <p>(b) The values of Bulathsinghala Multi-Purpose Building and Eggaloya Special Economic Center which were completed and handed over to the Sabha on 25 February 2019 based on the provisions of the Urban Development Authority had not been assessed and accounted for under property, plant and equipment.</p> <p>(c) Although the fixed assets below Rs.5,000 should be removed from the relevant asset accounts and included under the stock of the store, as per Asset Management Circular No. 04/2018 dated 31 December 2018, instead of</p>	<p>This will be corrected in the final account of the year 2022</p>	<p>It should be accurately accounted for.</p>

removing of fixed assets amounting to Rs.769,800 from accounts and debited to reserves and debiting stock account, it had been debited to reserves and provisions account.

(d) Although Rs. 1,851,646 which was recommended to be removed should be removed from the relevant asset accounts and identified as the expenses of the year as per the Board of Survey Reports, without doing so, the above value had been written off from the reserve and provisions account.

(e) Although the capital grants received in the year 2021 in relation to Rs. 36,543,264 should be recognized in the comprehensive income from the year 2022, as a result of a sum of Rs.1,640,758 out of the above capital grants had been recognized under income in the statement of comprehensive income of the year under review by Journal No. 68, the surplus for the year had been overstated by that amount.

(f) Although the unrecognized capital expenditure grant balance of surplus or deficit as at 31 December 2021 should be Rs.91,516,773, because it was shown Rs.89,862,143 in the statement of assets and liabilities, the equity of the year had been understated by Rs.1,654,630.

(g) Although the capital grant of Rs.198,551 received in the year 2020 had been recognized in the income by Journal No. 70, as a result of Rs. 13,864 had also included within that value from the capital grants received for the library books in the year 2021, the surplus for the year had been overstated by that amount.

(h) As a result of the vessels and equipment amounting to Rs.857,350 and the machines valued at Rs.70,000 purchased during the year 2021 had been credited to the reserves and provisions account, the equity had been overstated by Rs. 927,350 .

This will be corrected in the final account of the year 2022

It should be accurately accounted for.

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### 1.6.3 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
There was a difference of Rs. 3,128,549 between the value shown in the financial statements and the value shown in the corresponding reports in relation to 03 accounting items.	This will be corrected in the final account of the year 2022 .	Financial statement balances and balances of schedules should be equal.

## 2. Financial Result

### 2.1 Financial Result

The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2021 in the financial statements submitted was Rs. 15,093,695 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 11,237,634 .

### 2.2 Performance on Revenue Collection

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2021 were Rs.18,101,272 and stamp duty was Rs.21,126,375.	As the court fines and stamp duty of the respective year are not charged during the year, schedules have not been prepared.	Actions should be taken to recover the arrears of income.

## 3. Operating Review

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The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

### 3.1 Deficiencies in Contract Administration

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
A multi-purpose building was constructed by the Urban Development Authority at a cost of		

Rs.153,351,216 and handed over to the Sabha in November 2019 by the transfer orders of the Divisional Secretary and the following matters were observed with regard to that.

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| <p>(a) Although the requirement of the Sabha should be presented before the construction of the multi-purpose building, the construction had been made without identifying that requirement.</p>  | <p>An inquiry has been made about the need of the Sabha before the construction.</p>   | <p>The needs of the Sabha should be identified and constructed.</p> |
| <p>(b) Even though the arrangements had been made transfer the ownership of the above building, which was built by the Urban Development Authority, to the Sabha on 23 November 2019 by the Divisional Secretary, even though 02 years 08 months had already elapsed by 02 August 2022, the Sabha had not taken steps to take over the ownership.</p> | <p>Necessary further actions will be taken to take ownership to the Sabha.</p>   | <p>Actions should be taken to take ownership of the Sabha.</p>      |
| <p>(c) Even though the said building had been handed over to the Sabha on 23 November 2019, had remained in idle for almost 03 years without use from the date of construction .</p>  | <p>Unable to use as it is half finished and the constructions will be done in the future based on the provisions of the Urban Development Authority</p>          | <p>Actions should be taken to put idle assets to use.</p>           |
| <p>(d) Although the Sabha had signed a Memorandum of Understanding on 16 November 2021 to provide the multi-purpose building to the Sri Lanka Vocational Training Authority for 30 years without charging any fee, actions had not been taken to implement the Project.</p>   | <p>It has been handed over through a Memorandum of Understanding to the Sri Lanka Vocational Training Authority upon the concurrence of the Council Meeting.</p> | <p>The project should be implemented as per the agreement.</p>      |