

Kothmale Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kothmale Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, 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 Kothmale Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 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 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 per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- Except for the observations in Paragraph 1.6.1 (a) of this report, the recommendations made by me during the previous year are included in the financial statements presented 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

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) The non-current assets in the financial statement for the preceding year totalled Rs. 139,084,859 and it should be equal to the Revenue Contribution to Capital Input Account. Nevertheless, the balance of that account was Rs.134,745,052, thus observing a difference of Rs.4,339,807.	This error will be corrected in the preparation of accounts for the year 2021.	Differences should be identified and corrected.
(b) Although debtors balance for the year under review was Rs. 37,786,842, it had been brought to account as Rs.41,407,282 in the financial statements, thus overstating by Rs. 3,620,440.	As the loan amounting to Rs. 3,620,440 received by the Local Loan and Development Fund has been included in the receipt of industrial debtors, debtors balance has been shown in less in schedules.	Necessary adjustments should be made to the accounts.
(c) Although Rs. 3,620,440 receivable for the Ramboda waterfall industry had been settled, it was stated as industrial debtors.	After being pointed out by the audit, action will be taken to eliminate that value from industrial schedule	Necessary adjustments should be made to the accounts.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation

The value of 05 items of accounts as per the financial statements and the schedules was Rs.6,412,083 and Rs.1,398,463 respectively. Accordingly, a difference of Rs.5,013,620 was observed.

Comment of the Sabha

This has been recorded due to an error in totalling sums in the preparation of schedules.

Recommendation

Differences should be identified and necessary adjustments should be made accordingly.

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.28,575,448 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.35,169,328.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation

Comment of the Sabha

Recommendation

(a) Rates and Taxes

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| i. | Action had not been taken to recover the arrears of revenue of Rs. 3,442,775 in accordance with provisions of the Pradeshiya Sabha Act, No.15 of 1987. | Action will be taken to prohibit properties to recover the arrears. | Action should be taken to recover the arrears in accordance with provisions of the Pradeshiya Sabha Act. |
| ii. | Although arrears of revenue should be recovered in terms of Section 158 of the Pradeshiya Sabha Act, No.15 of 1987, out of the arrears of Rates of Rs. 1,506,055 as at 01 January 2020, a sum of Rs. 717,988 only had been recovered. Further, out of Acreage Tax of Rs. 91,250, a sum of Rs. 22,315 and out of water tax arrears of Rs. 577,130, a sum of Rs. 158,650 had been recovered. | Action will be taken to prohibit properties to recover the arrears. | Arrears of revenue should be properly recovered. |

(b) Court fines and stamp duty

No action had been taken to recover the court fines of Rs. 1,936,831 and stamp duty of Rs. 5,142.470 due from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review.

Action will be taken to recover the dues. Action should be taken to recover revenue.

(c) Other Income

There are 07 telephone towers in 7 places in the jurisdiction of the Sabha and even there was a possibility to earn income from those towers by passing a resolution according to the annual gazette notification, no action had been taken for that end.

Action will be taken to recover business tax for the communication towers from the year 2022. Action should be taken to generate new sources of revenue.

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 Management Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Two hundred and ninety nine (299) unauthorized constructions carried out during the period from 2018 to 2020 by private parties within the Sabha area had been identified. Of these, 299 have not yet been prosecuted. No legal action had been taken for 243 of the above constructions.	Four (4) buildings have been demolished and another 52 applicants have been issued permissions to carry out the constructions as per legal provisions and 12 out of 24 re-submitted building applications have been approved. Due to the shortcomings. 12 applications have not been approved and arrangements have been made to file court cases regarding 146 applicants.	Action should be taken to formalize unauthorized constructions.

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| (b) | Industrial debtor balance due as at 31 December of the year under review was Rs.37,786,842 and no action had been taken to recover the outstanding amount of Rs. 12,226,721 that remained outstanding over a period of one year. | Those balances will be settled in the ensuing year. | Action should be taken to recover the debtors balances. |
| (c) | The industrial creditors balance payable as at 31 December of the year under review was Rs.53,016,881, of which Rs.14,737,652 was outstanding for more than one year. No action had been taken to settle these debt balances. | Action will be taken to settle these creditors' balances in the preparation of final accounts for the year 2021. | Action should be taken to settle the creditors' balances. |

3.2 Assets Management

Audit Observation

According to the financial statements submitted by the Sabha, the value of lands and buildings owned by the Sabha as at 31 December of the preceding year was Rs.75,717,510. There was a deed of declaration only for the land of about 02 acres where the Sabha office is located. However, the Sabha did not have title deeds or transfer orders for other lands (including lands with Sabha buildings)

Comment of the Sabha

Requests have already been made to the Kotmale Divisional Secretary to obtain deeds and transfers relating to the lands belonging to this Sabha.

Recommendation

Ownership of the assets should be confirmed.

3.3 Deficiencies in the Contract Administration

Audit Observation

Nawangama Drinking Water Project had been commenced on 01 December 2020 and completed on 15 December 2020. Bills amounting to Rs.1,979,598 had been submitted and Rs.1,067,766 had been paid on 26th June 2021. But the project had failed to provide drinking water. Although the old stone wall had been demolished and a new wall had been constructed, it had not been adequately filled with water. The upper bank had collapsed due to soil erosion caused due to removal of soil to make the foundation for the wall.

Comment of the Sabha

That a partly payment has been made to the contractor due to deficiencies in the development scheme.

Recommendation

Projects should be implemented as per the estimates and proper specifications to achieve objectives.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation

Eighteen projects valued at Rs.2,435,000 that had been approved in the Annual Budget and expected to be implemented from the Sabha fund during the year under review, had not commenced during the year.

Comment of the Sabha

Action will be taken to complete all these development proposals before the end of July 2021.

Recommendation

Action should be taken to complete the projects so as to provide maximum service to the public through the funds received.