

Kundasale Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kundasale Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Income and Expenditure Account, 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 Provisions of the National Audit Act No.19 of 2018 and with Sub-Section 172 (1) of the Pradeshiya Sabha Act No.15 of 1987. 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 Kundasale 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 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 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 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 Urban council, 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) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018 recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Construction value of Rs.500,000 spent for development of Sabha buildings during the year under review was not capitalized.	Action will be taken to correct it by keeping journal entries.	Correction should be done when preparing financial statements for the next year.
(b) The value of the tractor owned by the Sabha was not accounted as at 31 December the year under review.	Action is been taken to return it to Mahaweli, so its value was not accounted.	Correction should be done when preparing financial statements for the next year.
(c) The value of tractor tailor that was received as a donation and the compactor which cost Rs.6,221,374 that was received as a donation in the previous year were not included in the financial statements.	Action is been taken to estimate the value of tractor tailor and correct it by keeping journal entries.	Correction should be done when preparing financial statements for the next year.
(d) The revenue of the Sabha was over stated due to according the entire revenue and expenses eventhough only the profit relevant to Sabha should be included in the financial statements, by preparing a separate account that include revenue and expenses of Aluthwatta compost yard project which is done under the agreement of Kundasale and Pathadumbara two Pradeshiya Sabha.	Action is been taken to submit it to Department of Local Government for examine the accuracy after preparing a revenue and expense account.	Correction should be done when preparing financial statements for the next year.

1.6.2 Non – reconciled Control Accounts and Reports

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) There was an unmatched of Rs.2,803,012 between the balances of 03 items of accounts included in the schedules related to financial statements and the balances of source documents.	Needed action will be taken to correct these by examining the reasons for unmatching.	Correction should be done when preparing financial statements of the next year.
(b) The value of fixed assets according to the financial statements was Rs.1,319,707,510 and there was a difference of Rs.519,621 due to the total of revenue contribution to capital application account and donation contribution to capital application account being Rs.1,319,187,889.	Needed action will be taken to correct these by examining the reasons for unmatching.	Correction should be done when preparing financial statements of the next year.
(c) There was a difference of Rs.224,181 between the balances of 02 items of accounts which amounted to Rs.23,691,740 in the financial statements and the balance of source documents.	Needed action will be taken to correct these by examining the reasons for unmatching.	Correction should be done when preparing financial statements of the next year.

1.6.3 Suspense Account

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
Action has not been taken to settle the balance of Rs.15,382 which was there for a long time in the suspense account.	It was unable to settle for a number of years due to being unable to identify correctly the matter related to this balance and still it is been examined.	Action should be taken to identify this balance and settle it.

1.6.4 Contingent Liabilities

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
26 court cases have been filed in during the period of year 2006 to 2020 against the Council relating for unauthorized constructions cancellation and roads as at 31 December the year under review and the information related to this was not disclosed by the financial statements.	Action will be taken to examine and submit the answers later.	Information needed by the users of the financial statements should be disclosed.

1.6.5 Lack of Written Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
It was unable to verify in a satisfactory manner during the audit due to not presenting goods survey reports and stock documents related for 3 items of accounts which amounted to Rs.43,604,843.	Action will be taken to settle those deposit documents in future.	Action should be taken to forward the related evidence.

1.7 Non - compliances

Non – compliance with Law, Rules, Regulations and Management Decisions

Occasions of Non – complaine to rules, regulations and management decisions are as follows.

Refer to Laws, Rules, Regulations and management decisions	Non - compliance	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No.15 of 1987			
(i) Section 126 (vii) (e) and the Gazette Notification dated 13 the December 2016	It was unable to get the receivable revenue of Rs.600,000 from notice boards due to not doing a survey even until 31 December 2020 eventhough a survey should be done at the beginning of the year.	Action has been taken to deploy trainig officers in this year.	Action Should be taken according to the terms of the Act.
(ii) Section 149	Action has not been taken to collect the 1 percent charge from the revenue related to the year underreview from 14 hotels which have been registered with the Sri Lanka Tourist Board that is been maintained in the Kundasale Sabha area.	Action have been taken for that at the moment.	Actions should be taken according to the terms of the Act.

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| (b) | Urban Development Act No.41 of 1978 amended by Act No. 4 of 1982 and Act No.44 of 1984 Section 01 (b) 28. | Commercial Market complex has been built by a private party which contained 5 stalls that covered the road reserve near Amunugama Bus Stand without an approval. Legal action has been not taken by the officers of the Sabha related to this unauthorized construction. | Has informed the related party with written notice to remove that construction. | Action should be taken according to the terms of the Act. |
| (c) | No.7 Circular of the Commissioner of Local Government dated 31 July 2013 | 150 trishaws parks have been registered and action has not been taken to collect charges of Rs.601,200 due from 1262 trishaws. | Action have begun at the moment for 2021 year trishaws survey and to collect arrears charges. | Action should be taken according to the terms of the Circular. |

2. Financial Review

2.1 Financial Result

According to the financial statements presented, excess of revenue over recurrent expenditure for the year ended 31st December 2020, amounted to Rs.91,567,788 as compared with the corresponding amount in excess of revenue recurrent expenditure for the proceeding year amounted to Rs.17,898,648. The main reason for this is the 241 percent increase of general administration revenue of the year under review compared with the previous year.

2.2 Revenue Administration

2.2.1 Revenue Collection Performance

Audit Observation	Comments of the Sabha	Recommendation
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(a) Rates and Taxes		

(i) Only Rs.2,844,808 which is 22 percent has been collected in the year from the arrears rates balance of Rs.12,664,709 as at the beginning of the year under review and only 49 percent was collected from the billed revenue in the	Answers were not presented.	Action should be taken to collect the arrears revenue without delay.

<p>year under review. Rs.381,716 arrears rates was included in the arrears rates of Rs.25,995,588 that it due as at 31 December 2020 from government institutions for several years and any action was not taken to collect these arrears rates.</p>		
<p>(ii) Only Rs.254,800 which is 40 percent has been collected in the year from the arrears garbage tax balance of Rs.639,550 as at the beginning of the year under review and any action was not taken to collect arrears tax even though there was an arrears of Rs.769,500 as at the end of month of December.</p>	<p>Answers were not presented.</p>	<p>Action should be taken to collect arrears revenue without delay.</p>
<p>(iii) Rs.10,002 which is due from 02 government institutions was included in arrears acreage tax balance of Rs.55,295 which is due as at 31 December 2020 from 73 units of acreage tax.</p>	<p>Related lists have been given to revenue examiner to write off the acreage tax which cannot be collected from the documents and to collect the other arrears.</p>	<p>Action should be taken to collect arrears revenue without delay.</p>
<p>(b) Rent ----- Rs.780,994 amount was due for the year under review from 02 shop stalls near the Menikhinna Bus Stand, 03 shop stalls near the Menikhinee Kirimatiya Junction upper storey market complex, 59 shop stalls in the Balagolla Moraghapitiya multitask building a shop stall in the Polgolla Sarvodaya building and from 19 shop stalls in the Menikhinee Public Market</p>	<p>Accept the observation.</p>	<p>Action should be taken to collect arrears revenue without delay.</p>
<p>(c) Other Revenue -----</p>	<p>Collection of revenue was declined due to Covid 19 pandemic situation.</p>	<p>Action should be taken to collect arrears revenue without delay.</p>
<p>(i) Only Rs.196,350 which is 8 percent has been collected in the year from the arrears other income of Rs.2,400,518 as at the beginning of year under review and due to collecting only Rs.112,038 which 43 percent from</p>	<p>Collection of revenue was declined due to Covid 19 pandemic situation.</p>	<p>Action should be taken to collect arrears revenue without delay.</p>

Rs.263,000 bills of the year the full arrears as at the end of the year was Rs.2,359,131.

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| (ii) | Sabha has not taken action to collect the revenue in spite of been disclosed that Rs,14,462,640 revenue was collected less according to the account statements presented to the Tourist Board, although Rs.2,358,313 tax amounts was paid in the years 2015, 2016, 2017 based on falsely prepared set of accounts by a private hotel and financial statements for the years 2018, 2018 were not presented to the Sabha by that relevant. | It is to inform that it is while finishing the task to prepare the documents relevant for inssuing final notices before to sue by taking legal advice and at the moment court cases are filed for the years 2019 and 2020. | Action should be taken to receive the financial statements relevant for the years and due tax amounts should be collected. |
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3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) Action has not been taken eventhough total of Rs.155,532 account balances which exceeded a period of 5 years and account balances of Rs.27,135,598 relevant for a period of 1 year to 5 years were included in in the receivable account balances of Rs.34,591,024 as at the 31 December the year under review.	Action will be taken according to the instructions from the Local Government relevant for dishonoured cheques and arrears tenders and action will be taken to correct the industrial debtors in the future.	Action should be taken to settle without delay.
(b) The total value of 3 items of payable account balances was Rs.156,969,239 as at 31 December the year under review and action has not been taken to settle eventhough a total account balance of Rs.23,331,564 was relevant for a period of 1 year to 5 years according to the time analysis.	Action will be taken to settle by examining the balances of previous years.	Action should be taken to settle without delay.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The Raja Rupa Pola owned by the Sabha was built by incurring a cost of Rs.9,080,564 in the year 2016 and a toilet was built by incurring an expense of Rs.675,029 in the year 2019. Eventhough it has been spent 05 years after constructing the building it was kept idle and not utilized even until 31 December 2020.	It will be able to begin revenue generating activities at this place in the future.	Resources owned by the council should be utilized efficiently to get maximum effectiveness.
(b) Action has not been taken to tender and lease one shop stall of Balagolla Moragahapitiya market complex and 05 shop stalls of Balagolla Moragahapitiya market complex.	Leas holders have been chosen related to these shop stalls and action has been taken to open it for business activities in the future.	Action should be taken to finalize the leasing activities immediately and to collect the revenue.

3.3 Deficiencies in the Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
(a) Action has not been taken to use the conference hall which has a space of 134 meters even until the audit date 31 December 2020 eventhough it has been finish work and hand over on 03 April 2019 that was constructed by incurring an expense of Rs.13,245,294 in the fourth floor of Pradeshiya Sabha building.	Action has been taken to repair deficiencies in the Council building by the provisions of the year 2021.	Resources owned by the council should be utilized efficiently to get maximum effectiveness.
(b) Action has not been taken to collect the financial loss incurred due to over stating the estimated value when doing paper advertisements for widening the Aluthwatta Kavashima mechanical compost yard amount of Rs.1,827,936 that was spent to put wire without confirming technically the need to put wires eventhough	(i) Enough time was not there to advertise again eventhough these advertisements should be corrected. (ii) Reason to concrete by laying wires when concerting the land was due to driving of machines like	Action should be taken to collect from officers responsible related to the losses that were shown.

lands was crushed with gravel, extra amount of Rs.5,309,574 spend to remove soil from the land and to fill it amount of Rs.1,121,849 that was spent by presenting another price analysis eventhough approved rate has been shown for transporting soil and the amount of Rs.721,992 that was paid more without using the rates according to approved specifications.

JCB. Tensile force cannot be beared by a concrete layer eventhough compressive strength can be beared and by laying wires this task can be fulfilled.

(iii) A construction cannot be done on a garbage layer and action has be taken to fill quality soil for that removed garbage because it should be done according to a correct standard.