

## **Kobeigane Pradeshiya Sabha – 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of financial statements of the Kobeigane Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, cash flow statement for the year then ended and 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 Subsection 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 financial statements give a true and fair view of the financial position of the Kobeigane Pradeshiya Sabha as at 31 December 2020, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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

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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 (SLAuS). 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 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 of the

## 1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 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 Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 includes specific provisions for following requirements.

- (a) The financial statements presented by the Pradeshiya Sabha are 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 financial statements presented includes all the recommendations made by me in the previous year 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 Accounting Deficiencies

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Audit Observation	Comment of the Sabha	Recommendation
(a) The value the motor grader of the Sabha had been understated by Rs. 8,590,500 in the account.	Action will be taken to capitalize the value of Rs. 8,590,500 in the future.	The value of the motor vehicles should be brought to account accurately.
(b) A sum of Rs. 2,711,758 spent for the development of 06 lands and buildings owned by the Sabha had not been capitalized during the year under review.	It is informed that action will be taken to account for this amount of Rs. 2,711,758 in the future.	Expenditure incurred for the development of lands and buildings should be capitalized.
(c) Value of Rs. 25,492,554 relevant to 05 items of account had been understated in the financial statements.	Action will be taken to accurately account for this in the ensuing year.	Accuracy should be ensured in the accounting process.
(d) Value of 02 machineries and equipment included in the register of fixed assets and 04 items received as donations had not been assessed and stated in the financial statements.	Action will be taken to assess them and account for the relevant values in the future.	Accuracy should be ensured in the accounting process.

## 1.6.2 Non-reconciled Control Account or Reports

Audit Observation	Comment of the Sabha	Recommendation
A difference of Rs. 1,539,159 was observed between the value as per the financial statements and the value as per the corresponding reports relating to 06 items of account and action had not been taken to rectify the accounts by reconciling differences of relevant balances.	Action will be taken to make relevant corrections during this year by journal entries.	Accounts should be corrected by reconciling the differences of relevant balances.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the expenditure of the Sabha in excess of the recurrent revenue amounted to Rs. 3,577,088 as at 31 December 2020 as compared with the corresponding expenditure exceeding the recurrent revenue for the preceding year amounting to Rs. 8,059,313.