

Kegalle Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kegalle Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations 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. 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 Kegalle 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 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

National Audit Act, No. 19 of 2018 includes 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 Act.
- (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 Act.

1.6 Audit Observations on the preparation of Financial Statements

Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The Consulting and administrative expenses of the construction of first floor of Morontota public market complex was over accounted by Rs. 337,972 and thereby Capital expenditure and creditors of the year have been overstated by the same amount.	The actual expenditure was Rs 990,556 and overvalued amount has been written off to cumulative fund in the year 2021 and the subject officers have been informed to act carefully	Accounts should be prepared correctly.
(b) Due to account of Rs. 18,446 as expenditure of the year under reviews which relevant to the prior years. Surplus of the year has been understated by same amount.	Action has been taken to adjust from the provision of creditors due to requisitions not made by them to provide provisions for overtime allowances related to the 06 vouchers. Informed that action will be taken not to repeat such shortfall in future.	Expenditure relevant to the year under review should be correctly identified and accounted.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 21,293,998 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 19,121,179 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
(a) Rates and Taxes		
(i) The rates and tax due were Rs. 1,152,759 and action had not been taken to recover these arrears.	It is unable to go in to the field for the collection of rates and taxes due to prevailed corona epidemic situation and informed that mobile service will be provided in future to minimise the dues.	Action should be taken to recover the areas rates and taxes in terms of the Act.
(ii) The outstanding balance of acreage taxes was Rs. 220,741 as at the end of the year under review.	Part of the prevailed deficit is non-taxable property due to sharing of land in urban areas and verification work has been initiated to identify those properties. Informed that these works will be settled in the future.	Action should be taken to recover the outstanding acreage taxes.
(b) Court Fines and Stamp duty		
The court fine due from the Chief Secretary of the Provincial Council and other authorities as at 31st December 2020 was Rs. 14,360,502 and the stamp duty balance was Rs. 28,130,490.	Although outstanding court fines have been remitted to the Chief Ministry but this has not been returned to the Sabha so far, and informed that action will be taken to submit another request to recover the outstanding stamp duty.	Action should be taken to recover the revenue.

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Even though amounting of Rs. 983,000 from general fund has been made provision as creditors for construction of Ranwala building in the year 2019, No construction work begins or incurred any expenditure for it until the date of audit.	Informed that the initial expenses will be incurred from provision made in the creditors by now for the demolition of the building and the preparation of the plan.	Arrangements should be made to complete the construction work as soon as possible.

3.2 Assets Management

Audit Observation	Comments of the Council	Recommendation
5 vehicles worth Rs.35,474,734 belonging to the Ministry of Local Government, 2 tractors worth Rs.3,865,000 belonging to the Sabaragamuwa Provincial Council and 2 trailers worth Rs. 416,000 were used for the work of the Sabha. But no action had been taken in accordance with paragraph 2.1 of the Asset Management Circular No. 20/2017 dated 21st December 2017.	All the documents required to take over of the all vehicles in the name of the Sabha have been prepared and completed. Informed that action would be taken to take over soon.	Action should be taken to take over assets in accordance with the Circular.

4. Accountability and Good Governance

Environmental Observations

Audit Observation	Comments of the Council	Recommendation
The amount of non-perishable waste collected in the year 2020 was about 5 tons. The cost incurred for this is around Rs. 164,000 and 03 employees have been deployed. Due to the non-available of land for waste management, non-perishable garbage was being sold and the decomposing waste had been released to the Morontota fair	Informed that plans are prepared to set up a biogas unit at the weekly fair premises using waste disposal in the future and initiate a project to supply electricity.	Waste management process should be formalized.