

## **Kotikawaththa Mulleriyawa 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 the financial statements of the Kotikawatta Mulleriyawa Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of assets and liabilities as at 31 December 2020 , 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 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 Kotikawaththa Mulleriyawa Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities.

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

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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**

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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 Government 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 skepticism 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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The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- 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.
- 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 regarding the preparation of financial statements

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### 1.6.1 Non-compliance with the Sri Lanka Public Sector Accounting Standards for Local Government Authorities.

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Non-compliance with reference to the relevant standard	Comment of the Sabha	Recommendation
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#### Sri Lanka Public Sector Accounting Standard for Local Government Authorities

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| (a) | According to Section 3.6 of the Standard, comparable information of the previous comparable period for all values presented in the current financial statement period should be compared, however the details of the previous year in the Comprehensive Revenue Statement and the Cash Flow Statement were not disclosed. | As this is the first financial statement prepared in relation to the new accounting standard, action will be taken to follow the instructions in preparing the financial statements for the coming years. | Action should be taken to follow the instructions given in the Standards and Gazette. |
| (b) | According to Article 3.9 of the Standard, the budget information in the financial statements, such as the initial budget, the final budget and any quantitative differences   | Action will be taken to do the relevant disclosures in the next year.   | Action should be taken to follow the instructions given in the Standards and Gazette. |

between them, had not been disclosed.

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| (c) | Assets and liabilities were not disclosed in the declaration as separate components of the non-satisfactory transfer of government revenue in accordance with Section 9.9 of the Standard.   | Action will be taken to correct in the year 2021.                 | Action should be taken to follow the instructions given in the Standards and Gazette. |
| (d) | According to Section 9.15 of the Standard, the charges identified as fines had not been disclosed with a proper analysis of the penalties for council damages.   | Action will be taken to submit correct accounts in the next year. | Action should be taken to follow the instructions given in the Standards and Gazette. |
| (e) | Non-disclosure of non-performing assets under Section 11.10 of the Standard and non-disclosed assets under Section 11.11 were not disclosed.   | Action will be taken to submit correct accounts in the next year. | Action should be taken to follow the instructions given in the Standards and Gazette. |
| (f) | In accordance with Section 15.13 of the Standards, the Council shall disclose separately the value of any non-refundable receivables in exchange and non-exchange transactions and the approval thereon. However, the unidentified stock of Rs. 306,989 had not been disclosed.. | Action will be taken to submit correct accounts in the next year  | Action should be taken to follow the instructions given in the Standards and Gazette. |

## 1.6.2 Accounting Deficiencies

----- <b>Audit observations</b> -----	----- <b>Comment of the Council</b> -----	----- <b>Recommendation</b> -----
(a) The work carried out under the capital grant during the year under review was accounted as work in progress when accounting the work creditors. The roads valued at Rs. 76,795,596, buildings valued at Rs.1,168,683 and children's parks valued at Rs.4,487,891 for a total amounting to Rs.82,452,170 had been accounted under recurrent expenditure instead of being accounted as non-financial assets.	Kindly inform that as a work in progress in the year 2021, a ledger account will be opened and necessary arrangements will be made to make the relevant adjustments.	Action should be taken to account work in progress correctly.

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| (b) | The loans of the Local Credit Development Fund amounting to Rs.7,211,200 had been accounted in the in that account and recoverable utility service loan account as at 31 December 2020. As a result, current assets for the year under review were overvalued.   | Action will be taken to account correctly.  | Action should be taken to account correctly.                           |
| (c) | At the payment of the stamp duty by the Provincial Council during the year under review, the deduction of the Compactor loan instalments amounting to Rs. 6,668,000 from the stamp duty was accounted as various expenses instead of being credited to the compactor loan account. As a result, the current liabilities and overdraft expenses for the year under review were over stated by Rs. 6,668,000 each.                 | The relevant payments will be made under the Provincial Council Loan Account when preparing the 2021 Account. | Action should be taken properly account the loan instalments payments. |
| (d) | According to the financial statements, the service charge of the Urban Development Authority was Rs. 8,579,289 in the current liability account balance, however it had been shown in the relevant bank account as Rs. 2,229,289. As a result, current assets were understated by Rs. 6,350,000.   | Actions will be taken to correct by preparing the final account for the year 2021.                            | Action should be taken to account correctly.                           |
| (e) | The capital grant for the year under review was Rs.165,076,733. However, it was stated as Rs.89,830,010 under other comprehensive income in the comprehensive Income Statement. As a result, Rs.75,246,722 had been understated. Further, the capital grant for non-recurring expenditure was Rs.7,708,776. It was accounted as Rs.165,076,733, therefore the recurrent over-expenditure had been understated by Rs.157,367,955. | The action taken to correct the final account for the year 2021.  | Action should be taken accurately account for capital grant.           |
| (f) | The unaccounted capital grant in the Statement of Assets and Liabilities was Rs.157,367,955 as at 31 December 2020. However it had not been accounted therefore the equity was understated by that value.  | The action taken to correct the final account for the year 2021.  | Action should be taken to account correctly.                           |

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| (g) | The financial assistance due for the year under review amounting to Rs. 82,452,170 had been accounted by the journal entry No.51. However, it had re-accounted by journal entry No.49 as Rs.82,624,561 therefore the current asset of the year under review had been over stated..   | The action taken to correct the final account for the year 2021. | Action should be taken to account correctly. |
| (h) | Provision had not been made for the capital expenditure of Rs.35,216,453 for previous year. In behalf of correct this entry, in the year under review, the amount was credited to the Cumulative Fund account without being credited to the property, plant and equipment or ongoing Working Progress Account.   | The action taken to correct the final account for the year 2021. | Action should be taken to account correctly. |
| (i) | Rs.5,739,637 to the general storage inventory account and Rs.998,326 to the Electrical Stock account had been debited by the journal entry No.48 and journal entry No. 52 and credited to the relevant credit account twice therefore the total of the general stores creditors and Electrical stores creditors had been overstated by Rs. 6,737,963 as at 31 December 2020. | The action taken to correct the final account for the year 2021. | Action should be taken to account correctly. |
| (j) | 20 industrial creditors valued at Rs.11,874,863 and 11 creditors valued at Rs.483,673 had been accounted less than the spent as at 31 December 2020. Therefore, the current liabilities and overhead costs had been understated than that value.   | The action taken to correct the final account for the year 2021. | Action should be taken to account correctly. |

### 1.6.3 Unreconciled control account or report

Audit observations	Comment of the Council	Recommendation
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There was a difference sum of Rs.211,181,175 in between the balance value of 06 accounting items in the financial statements and balance value in sub registers.	Action will be taken to correct in future.	Actions should be taken to correct registers and sub-registers.

#### 1.6.4 Lack of documentary Evidence for Audit

<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Due to non-submission of required information, two accounting items amounting to Rs. 82,931,551 could not be satisfactorily vouched during the audit.	Action will be taken to correct in next year.	Relevant approval and detailed schedules should be submitted.

## 2. Financial Review

### 2.1 Financial results

According to the Financial Statements presented, recurrent expenditure over revenue of the Sabha for the year ended 31 December 2020 amounted to Rs. 645,242,866 as against with the revenue over recurrent expenditure amounted to Rs. 96,343,250 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Performance of Revenue Collection

<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>(a) Rates and Tax</b>		
Arrears of the assessment tax value due as at the end of the year under review was Rs.51,006,925.	Inability to implement special programs such as mobile services, property bans, etc. related to revenue collection due to the Covid epidemic for the year 2020.	Quick action should be taken to collect the arrears of Income
<b>(b) Shop rent</b>		
The outstanding rent from the 837.22 square feet with 8 stalls in the old market owned by the council and 1441.86 square feet with 116 stalls in the Shopping complex was Rs.12,234,955 as at 31 December 2020. While, 76 stalls had not received any rent and the total outstanding rent from them was Rs. 4,911,360.	Due to the default of the rent payment against the new assessment made in the year 2019 and the Covid-19 epidemic, further assessments could not be made and action will be taken to collect those revenue in the year 2021	Quick action should be taken to collect the arrears of shop rent Income.