

Kelaniya Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kelaniya 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 provisions of the National audit act No.19 of 2018 and the 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 financial statements give a true and fair view of the financial position of the Kelaniya Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities .

1.2. Basis for Qualified Opinion

I express qualified opinion 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 Sri Lanka Public Sector Accounting Standards, 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 include 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 National Audit Act, No. 19 of 2018.
- (b) The recommendations which I made on financial statements for the preceding year have been included 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Reference to the Relevant Standard	Non -compliance with	Comments of the Sabha	Recommendation
3.15	The area where the authority of the Pradeshiya Sabha is located, the country and the province where it is located and the address of its Head Office had not been disclosed in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.	The error has been identified and the actions will be taken to make these disclosures from the financial statement 2021.	Disclosures in financial statements should be made as per Accounting Standards.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) An advance account for employee loans had not been maintained as per Rules No. 83 (ii) on accounts pertaining to the Financial Administration of the Western Provincial Pradeshiya Sabhas	he fault has been identified and actions will be taken to maintain an advance account.	Arrangements need to be made to maintain an advance account.

enacted by the Extraordinary Gazette Notification No. 2155/8 dated 24 December 2019 .

- (b) Out of the 96 lands owned by the Sabha, 6 lands pertaining to 6 public wells were not physically available as per the revaluation schedule and one parcel of land owned by the Sabha had been transferred to another person by a deed of gift.
- Pilapitiya, Wewelduwa, Manelgama Housing Scheme, Bulugahahandiya Public Wells at Kandy Road and Wanathewatta Land have been entrusted. The Wanawasala Stadium is not available. Due to the absence of the well on Eriyawetiya Deva Sumittarama Road was not physically available, the value cannot be determined. As Mewella pre school, Public Library and Children's Park are being renovated, the value could not be inferred determined. The public well near Abhaya Siriwatta on Wewelduwa Abhaya Mawatha is a part of the Gorokgahawatta land in the land revaluation register. The land has been revalued.
- Actions should be taken to identify all lands owned by the Sabha and to make assessment and account for the value and it should be ascertained whether the lands owned by the Sabha can be hand over through deed of gifts.
- (c) A generator which was shown as creditors in the schedule valued at Rs.7,000,000 had not been accounted for.
- It will be corrected by the final account 2021.
- Actions should be taken to account for all the assets .
- (d) The balance of reserve had been differed by Rs.109,383,228 as a result of the difference remained in between the balance as per the financial statements and the schedules of 08 account items were transferred to the reserves and provisions account by adjusting to the balance in the schedule.
- Necessary steps are being taken to reconcile those discrepancies in balances with the relevant items and an account has been opened as temporary reserves and provisions as per the new accounting system until those errors are corrected and the corrections which are done subsequently are being carried out through those reserves and provisions account.
- There should not be any difference in balances in between financial statements and the schedules and the transfer to the reserve account should be made only through a formal authority.

- (e) Although the fixed assets totalled to Rs. 2,233,236 for the year 2020 had been disposed, as a result of non-adjustment of Rs. 254,200 which should be disposed as depreciation for that, the surplus had been understated by that value and the depreciation value had not been adjusted to the disposal account and provision for depreciation account. The error has been recognized and since it is included in the provision for depreciation account made in respect of the assets disposable, it is kindly informed that it will be credited to the accumulated fund in the year 2021. Arrangements should be made to properly adjust the depreciation provision for disposable assets.

2. Financial Review

2.1 Financial Results

The income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs.197,745,162 and the income exceeding the recurrent expenditure for the preceding year was Rs.94,173,429.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
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(a) Out of the reception hall rental valued at Rs.733,489 remained as at the beginning of the year under review, no money whatsoever had been recovered by the end of the year. Although a sum of Rs.430,000 had been billed for the current year only Rs.373,000 had been recovered from those bills.	As a result of the Covid 19 epidemic situation from March 2020, the recovery of rent has occurred at very low level.	Arrangements should be made to recover the arrears of hall rent.
(b) Out of the arrears rent of other locations amounting to Rs.637,533 remained as at the beginning of the year under review, no money whatsoever had been collected by the end of the year.	As a result of the Covid 19 epidemic situation from March 2020, the recovery of rent has been at very low level.	Arrangements should be made to the recovery of the arrears rent of other locations .

2.2.2 Rates and Taxes

Audit Observation	Comments of the Sabha	Recommendation
<p>It was observed that, thus the arrears of rates was Rs.47,628,734 as per the schedule submitted with financial statements as at 31 December 2020 and arrears of rates was Rs.43,536,497 according to financial statements, there was a difference of Rs.4,092,237 and there was an arrears of Rs.787,040 which was not being recovered per unit of rates for about 04 years and the overbilled amount in the year under review was Rs.118,300,000.</p>	<p>The balance is being checked and due to the Covid 19 epidemic in the country, it was not able to recover the arrears and ban the property. Because the institution has been closed for a long time actions will be taken to recover in future by stopping the issuing of bills in the register of rates. In providing information for the year 2020, accounting error has occurred in the billing.</p>	<p>Actions should be taken to identify and rectify changes, to recover arrears of rates and to correct billing income.</p>

2.2.3 Trade Stall Rent

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) There was an arrears of Rs.16,546,626 from the trade stall owned by the Sabha as at 31 December of the year under review and within this arrears, there was a trade stall rent receivable for two stalls amounting to Rs.643,245 and it had not been recovered from a period of 3 years.</p>	<p>Actions will be taken to recover the arrears once the Covid epidemic is over.</p>	<p>Actions should be taken to recover the arrears trade stall rent.</p>
<p>(b) The register for trade stall rent and detailed schedules were not submitted for the stall rent amount of Rs.113,078,355 and thus the trade stall rent and meat shop rent balance as per financial statements was Rs.18,741,872 and Rs.115,648,294 as per correspondence records, a difference of Rs.96,906,422 was observed.</p>	<p>The balance is being checked. Schedules have to be submitted.</p>	<p>Actions should be taken to identify and correct discrepancies and to provide written evidence for all values accounted for.</p>

2.2.4 Other Income

----- Transmission Tower Revenue -----

Audit Observation

The revenue of towers due to be recovered amounting to Rs.132,000 from 54 transmission towers as at 31 December 2020 had not been recovered and actions had not been taken to recover the rates from these towers on an annual assessment .

Comments of the Sabha

An annual assessment of the towers in the Sabha area was conducted in late 2019 and seventy five per cent of it has been completed and the assessment, once the Covid epidemic is over will be completed.

Recommendation

Arrangements should be made to collect the arrears of transmission towers revenue and actions should be taken to recover the rates on the old assessment or an annual assessment from towers until the new assessment will be provided.