

Kirinda Puhulwalla Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kirinda Puhulwalla Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising Statement of financial position, as at 31 December 2021 Statement of Financial Operations, statement of changing 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 Kirinda Puhulwalla Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows 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 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

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 regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommen- dation -----
(a) The amount of Rs.4,318,943 spent for the development of land and buildings owned by the council in 2015 in previous year and the library books valued at Rs.50,003 received as donations during the reviewed year had not been capitalized.	The action will be taken to rectify by the financial statements of the year 2022.	Should be accounted correctly.
(b) Rs.3,913,008 had been spent on building development in the year under review was not accounted under land and buildings.		
(c) Credit provisions had not been made for Rs.9,022,545 payable for 04 construction works and Rs.1,332,346 for various expenses.		

- (d) The settlement of the credit balance of Rs. 2,868,862, which had been made provision in the previous year, was accounted as an expense in the year under review.
- (e) Rs.499,242 received in the year under reviewed on behalf of the work shown as debtors in the previous year had been accounted as the income of the year under reviewed.
- (f) Although the expenditure to be paid for the Walakanda Community Water Project at the end of the year under review was Rs.1,402,909, however Rs.2,204,419 had been provided under creditors therefore an over provision of Rs.801,510 had been made.
- (g) The value of the stationery stock was under stated by Rs.83,957 and the stock of street lights was over stated by Rs.8,400 as at the end of the year under review, therefore the closing stock at the end of the year was under stated by Rs.75,558.

The action will be taken to correct in the future
Should be accounted correctly.

1.6.2 Un reconciled control account or records

Audit Observation

There were difference of Rs.482,702 in between the balances of 05 accounting items which totaled Rs.3,994,858 included in the financial statements and the balances shown in the relevant documents/schedules.

Comment of the Sabha

The action will be taken to correct in the future.

Recommendation

The action should be taken to reconcile the differences of the relevant balances and correct the accounts.

1.6.3 Lack of Documentary evidence for audit

Audit Observation

Due to non-submission of updated fixed asset registers and detailed schedules etc., 05 accounting items totaling to Rs.988,096 could not be satisfactorily checked during the audit.

Comment of the Sabha

Action will be taken to update.

Recommendation

Evidence should be submitted to confirm the account balances shown in the financial statements.

2. Financial review

2.1 Financial result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December amounted to Rs. 515,070 as against the excess of revenue over recurrent expenditure amounted to Rs. 3,866,801 in the preceding year.

2.2 Performance of Revenue Collections

(a) Assessment

Audit Observation

The number of assessment units was 565 as at the end of the year under review, out of which there was an outstanding balance of Rs.715,156 in relation to 219 assessment units.

Comment of the Sabha

There is a problem of collection of arrears due to the current situation in the country.

Recommendation

Arrears of income should be collected promptly

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

3.1 Operational Inefficiencies

Audit Observation

The building applications submitted to the council in 2018 and 2019 were not approved due to non-compliance with the Urban Development Regulations, and during the sample audits conducted on those building applications, buildings were completed or under construction in relation to 03 building applications, and 09 more buildings were constructed without obtaining development permits. It was observed that according to Schedule 02 of the Gazette Notification No. 2235/54 dated 08 July 2021, which includes the planning and development orders/regulations of the Urban Development Authority regarding these unauthorized constructions, charges of Rs.913,792 had been charged or no steps have been taken to regularize or remove the constructions.

Comment of the Sabha

The necessary actions are being taken in relation to the relevant building applications.

Recommendation

Regularization or removal of the construction should be done and charges should be levied as per the gazette notification.