

## Kegalle Pradeshiya Sabha - 2021

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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 Kegalle Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021 Statement of Financial Operations, 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 Provision 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 financial statements give a true and fair view of the financial position of the Kegalle 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 Practices.

#### 1.2. Basis for Qualified Opinion

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I expressed qualified opinion 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 Generally Accepted Accounting Practices, 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 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

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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 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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### Accounting Deficiencies

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|     | Audit Observation<br>-----                                                                                                                                                                                                | Comments of the Council<br>-----                                                                                                                                                                          | Recommendation<br>-----            |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| (a) | The interest payable of Rs.5,379,322 as at 31 <sup>st</sup> December 2021 for the loan taken in 2019 from the Local Credit and Development Fund for the construction of Moronthota market complex has not been accounted. | It was informed that the interest amount of Rs. 5,379,322 to be paid in future will be accounted.                                                                                                         | Action should be taken to rectify. |
| (b) | The value of Rs.1,200,000 of the old village council building located at Rangwala junction which was demolished in the year under review had not been removed from the accounts.                                          | That the value of the old village council building had been neglected to be removed from the accounts and informed that it will be rectified when preparation of the accounts relevant for the year 2022. | Action should be taken to rectify. |

1.7 Non- Compliances

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Non-compliance with Laws, Rules, Regulations and Management Decisions  
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The instances of non-compliances with Laws, Rules, Regulations and Management decisions were given below.

| Reference to Laws, Rules Regulations etc.                                                         | Non-compliance                                                                                                                                                                                                                                                                                                                                           | Comments of the Council                                                                                           | Recommendation                                   |
|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| Circular No. 01/2010 of the Local Government Reform Circular Guidelines Code - Paragraph 7.4 (iv) | Membership allowances of Rs. 975,000 have been paid for council meetings for 65 days by Rs 15,000 per day for the absence on the recommendation of the Secretary and with the approval of the Chairman for 17 and 16 members contradictorily to the circular for non-medical reasons or non-relevant for local government in the years of 2020 and 2021. | Members have been acknowledged and It was also informed that allowances will not be paid without medical reports. | Action should be done according to the circular. |

2. Financial Review

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2.1 Financial Result  
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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs 36,210,272 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 21,293,998 in the preceding year.

## 2.2 Revenue Administration

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### Performance in Revenue Collection

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| Audit Observation<br>-----                                                                                                                                                                                                                                                                                                                                       | Comments of the Council<br>-----                                                                                                                                                                                                                                                                                                                                                                                                                  | Recommendation<br>-----                                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| (i) The balance of rate tax to be collected from 15 rating units of the public sector and 1776 rating units belonging to the private sector was Rs. 2,184,193 as at the end of the year reviewed and Action has not been taken to recover Rs. 261,635 balance more than 05 years in which in terms of Section 158(1) of the Pradeshiya Sabha Act no. 15 of 1987. | The country was locked down for a long period due to the Corona epidemic and that the revenue officers were unable to properly perform their field duties and properly carry out the process of Prohibition of property. These functions were performed properly and the revenue collection process will be done formally in future and It was also informed that action will be done to recover a higher percentage from the outstanding amount. | Action should be done to recover rate outstanding.     |
| (ii) The acre tax balance due from 380 units was Rs. 256,308 as at end of the year under review and out of which Rs. 51,419 was the outstanding balance for the year under review and Rs. 204,889 was outstanding balance for more than 01 year.                                                                                                                 | Acre taxable land has decreased due to allotment of land and It was informed that a committee has been appointed regarding the collection of outstanding and surveys will be conducted and further action will be done based on its reports.                                                                                                                                                                                                      | Action should be done to recover acre tax outstanding. |