

## **Arachchikattuwa 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 Arachchikattuwa Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, statement of changes in net assets and cash flow statement including a summary of significant accounting policies and other explanatory information, was carried out 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 Sabhas Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Arachchikattuwa Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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

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My opinion is qualified 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**

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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 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 Sub-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 to be prepared.

#### **1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Pradeshiya Sabha 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 are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(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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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Sabha	Recommendation
(a) Billboard exhibit fee income of Rs.194,350 which was to be recovered relating to the year under review had not been brought to account.	Action will be taken to account for in the preparation of accounts in the ensuing year.	Revenue relevant to the year should be identified and brought to account accurately.
(b) Unconstructed work valued at Rs.2,881,245 in relation to 4 industries which were contracted for Rs.11,640,351 in the year under review had been accounted as creditors and capital expenditure .	Although the construction has not been completed, since the agreement has been signed for the full amount and the remaining work has been continued to be completed in 2022, it is not possible to make payments this year if not accounted for as a creditor, and therefore, it was brought to as the creditors.	The contracted value should not be brought to account as creditors and only the calculated value of work done and unpaid bills in hand should be brought to account as creditors.

### 1.6.2 Lack of Documentary Evidence for Audit

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Audit Observation	Comment of the Sabha	Recommendation
Information required for the audit in relation to 02 items of account totaled Rs.872,930 had not been furnished.	Accepted. Action will be taken to submit the balance confirmations in the future.	Written evidence that confirm the account balances indicated in the financial statements should be furnished.

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 10,374,227 as at 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 21,025,573.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
<p><b>(a) Rates</b> -----</p> <p>Rates that remained outstanding from 4679 units of Rates as at 31 December 2021 was Rs.14,813,778 and Rs.13,414,047 of that amount remained outstanding as at 31 August 2022.</p>	<p>Measures to be taken are in progress and action will be taken to recover the arrears as soon as possible.</p>	<p>Action should be taken in accordance with Pradeshiya Sabha Act No.15 of 1987.</p>
<p><b>(b) Acreage Tax</b> -----</p> <p>The acreage tax of Rs.6,576 that remained outstanding as at 31 December 2021 from 05 properties subject to acreage tax in the public sector and Rs.311,716 from 248 properties in the private sector had not been recovered even by 31 August 2022.</p>	<p>Action will be taken to recover the balance as soon as possible.</p>	<p>The extent of land should be determined accurately and accordingly tax should be collected expeditiously.</p>
<p><b>(c) Rent</b> -----</p> <p>There was Rs. 1,633,202 rent due from 46 units in the private sector as at 31 December 2021, of which Rs. 1,426,059 remained outstanding as of 31 August 2022.</p>	<p>Three cases have been filed to recover the outstanding tax and it is informed that legal action is being taken to recover the outstanding rent.</p>	<p>Action should be taken to promptly recover the all outstanding rent.</p>