

## **Kalawana Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Adverse Opinion**

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The Audit of the financial statements of the Kalawana 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, Cash flow statement for the year then ended 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 Sabha 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 published in Parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Kalawana Pradeshiya Sabha as at 31 December 2021 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **1.2 Basis for Adverse Opinion**

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I expressed adverse 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 the 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 as management determine is necessary to enable the preparation of the financial statements that are free from material misstatements, 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 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 misstatements, 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 a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 procedure 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 discourses, 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 compiled 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 the 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 (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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### 1.6.1 Accounting Deficiencies

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<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
(a) Even though the revenue of the court fines relating to the year under review should be Rs. 2,294,617 a sum of Rs. 1,240,867 only had been brought to account as bills.	It has been informed that it will be rectified in the year 2022.	The correct value of bills should be identified and accounted for.
(b) Even though the court fines revenue of Rs. 2,509,708 received in cash in the year under review, a sum of Rs. 1,207,458 only had been adjusted in the court fines receivable ledger account.		The value of receipts in cash should be identified and accounted for.
(c) Over provisions for court fines, stamp fees relating to the year under review amounting to Rs. 1,445,624 and Rs. 5,916,937 respectively had not been identified and adjusted.		Over provisions should be adjusted through ledger account.
(d) A sum of Rs. 1,474,438 relating to the development of playground near the Pothupitiya school had not been adjusted in the financial statements.		The expenditure of the development of playground should be capitalized.
(e) Even though the tax revenue of Kalawana weekly fair relating to the year under review	It has been informed that it will be rectified in the year 2022.	The revenue relating to the year should be correctly identified and

- amounted to Rs. 495,360, a sum of Rs. 100,000 only had been shown as bills.
- (f) A sum of Rs. 707,097 incurred for acquisition and improvement of fixed assets relating to the year under review had not been capitalized.
- (g) The value of fixed assets donation amounting to Rs. 469,200 had not been adjusted in the statement of financial operations.
- accounted for.
- The acquisition of fixed assets and improvements should be capitalized.
- The value of donations should be adjusted in the statement of financial operations.

### 1.6.2 Unreconciled Control Accounts or Reports

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
A difference of Rs. 40,371,254 was observed between the balances as per the financial statements as at the end of the year under review relating to 08 items of accounts and the balances as per subsidiary registers.	It has been informed, that it will be rectified in the year 2022.	The balances as per financial statements and the balances as per subsidiary registers should be reconciled.

### 1.7 Non-compliances

#### Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with laws, rules, regulations and management decisions are given below.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Financial Regulations of the Democratic socialist Republic of Sri Lanka. Financial Regulation 571(2)	Action had not been taken in terms of the regulations in respect of deposits totaling Rs. 21,678,062 consisting tender deposits which exceeded two years amounting to Rs. 383,000,	It has been informed that action will be taken to check further and settle the balances.	Action should be taken in terms of the regulation.

Contract security amounting to Rs. 8,943,260 and miscellaneous deposits amounting to Rs. 12,351,802.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 1,464,664 as compared with the excess of expenditure over recurrent revenue of the preceding year amounting to Rs.5,797,765.

### 2.2 Revenue Administration

#### Performance in Collection of Revenue

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<b>(a) Rates and Taxes</b>		
There were arrears of assessment tax from 496 units amounting to Rs. 2,725,598 as at the end of the year under review and it included a balance of Rs. 33,299 receivable from 02 Government institutions and a balance of Rs. 2,692,299 receivable from 494 Private units.	It has been informed that the activities of recovery of taxes were difficult due to prevailing economic crisis and action will be taken to recover arrears by conducting mobile programs.	Action should be taken in terms of provisions of the Act and the referred Regulations.
<b>(b) Other Income</b>		
The Sabha had failed to recover a sum totaling Rs. 594,100 consisting of Rs. 270,425 for the year 2020 from 24 permanent advertisement hoardings and Rs. 323,675 for the year for the year 2021 from 27 advertisement hoardings currently displayed which identified by a survey of the	It has been informed that action will be taken to notice by letters and conduct mobile programs and to recover relevant revenue quickly.	The advertisement hoardings displayed in the authoritative area of the Sabha should be identified and to be recovered the receivables.

advertisement hoardings in the authoritative area of the Sabha even by 19, January 2022, the date of audit.

### 3. Operating Review

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The matters observed in respect of the activities that should be carried out by the Sabha such as regularize and control over the matters of public health, public utility services, thoroughfares and the comfort, facilities and well-being of the people under section 03 of the Pradeshiya Sabha Act are given below.

#### 3.1 Operating Inefficiencies

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##### Audit Observation

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Action had not been taken to identify unauthorized constructions in the authoritative area of the Sabha from the year 2015 to 2019 and it was referred to obtain technical officer reports in respect of 05 unauthorised constructions identified from the year 2020 to 2021. Action has been taken to regularize one unauthorised constructions and only sent letters informing to remove the other unauthorised constructions. Accordingly it was observed that there is no formal methodology to identify unauthorised constructions in the authoritative area of the Sabha.

##### Comments of the Council

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It has been informed, that action has been taken to inform to stop the unauthorised constructions and to refer applications to the Sabha to regularize the costructions.

##### Recommendation

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Action should be taken to remove or regularize the unauthorised constructions.

#### 3.2 Assets Management

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##### Audit Observation

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Two houses belonging the Sabha situated in the land of Mukalana, Debarabandihena, lot 200 F.V.P 243 of the Rajjuruwaththa – Malwalakele owned by the Sabha, has been leased out to 2

##### Comments of the Council

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It has been informed, that the reports of the Department of valuation were received and action will be taken accordingly in future.

##### Recommendation

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Action should be taken to survey and clear the lands.

persons for a sum of Rs. 40 monthly in the year 1983 without an agreement One dweller had informed by the letter dated 02 December 2021 that he paid taxes up to the year 2000 and as such he requested the ownership of the houses. Accordingly it was observed that the Sabha had failed to re assess the houses after the year 2000 and to recover the taxes. Further it was observed that the Sabha had not taken action to survey and clear the land.

### 3.3 Deficiencies in Contract Administration

#### Audit Observation

An estimate of Rs. 1,500,000 had been approved for the development of playground near the Pothupitiya School on the provisions of the State Ministry of Rural and School Sports infrastructure Facilities Promotion and the above project had been executed on the direct labour basis by the Pradeshiya Sabha on 02 March 2021 without a permission of the School. Even though the agreement period was 08 days, a period more than one year was spent after commencing the project. As the work of the project was stopped half way, the playground could not be utilized to play and as such the children of the school as well as the players of the area were in trouble. According to the guidelines of the project, only the fuel costs fee machineries incurred should be reimbursed. But the Pradeshiya Sabha had produced payment reports and the measurement reports of Rs. 1,474,438 according to the approved rates of the Provincial Council Building constructions.

#### Comments of the Council

It has been informed that the relevant officers were not replied so far.

#### Recommendation

Action should be taken to accomplish the function within the due period and to achieve the expected result there by.

**4. Accountability and Good Governance**

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**Environmental Problems**  
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**Audit Observation**  
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Sums of Rs. 3,176,698 and Rs. 1,192,695 had been incurred for 14 employees and 03 vehicles respectively, to dispose about 70 metric tons of solid waste, in the year under review within the authoritative area of the Sabha. Nevertheless, without following a formal and environment friendly methodology to dispose above waste, the pits were dug in the land and waste were dumped into it and the pits were closed and as such many environmental problems had arisen.

**Comments of the Council**  
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It has been informed that the Sabha doesn't have an enough provisions to construct a waste yard and the relevant requests has been referred to the Provincial council.

**Recommendation**  
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Solid waste Management plan should be prepared and the solid waste management activities should be done properly.