

## Karachchi 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 Karachchi Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Income and Expenditure Account, 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 Karachchi 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

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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

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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 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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The National Audit Act No. **19** of **2018** contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshia 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 (i) (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

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### 1.6.1 Accounting Policies

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#### Audit Observation

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The accounting policies followed were not disclosed in the financial statements and both accrual basis and cash basis of accounting had been followed.

#### Comment of the Council

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The comment had not been given by the Management.

#### Recommendation

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The Financial Statements should be prepared in accordance with a certain accounting policy

### 1.6.2 Accounting Deficiencies

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#### Audit Observation

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The Receivable rent of Rs.2,838,050 at the end of the year under review had not been accounted and arrears of rents and charges from the previous year amounting to Rs.2,858,125 were shown as income of the year under review.

#### Comment of the Council

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The arrangements will be made to account accurately for the income to be received in the next financial year.

#### Recommendation

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The Accounts should be prepared in accordance with accounting principles and policies

1.7 Non compliances  
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1.7.1 Non compliances with laws rules and regulations  
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The instances of non-compliances with laws rules and regulations are as follows.

Reference to laws rules regulations	Non compliance	Comment of the Council	Recommendation
(a) Section 159 of the Pradeshiya Sabha Act No. 15 of 1987	The secretary of the council had not issued a written order to collect the rents and fees of Rs.8,453,402 between the years 02 and 05 old.	Due to the epidemic situation, arrangements are made to deduct arrears of rent and charges, recover other balances and publish a written order.	The action should be taken in accordance with the Rules and regulations
(b) The Northern Provincial Council Provincial Finance Rules - 2008 163.3(ii)	An advance of Rs.1,000,000 more than 3 years old had not been settled	This was because the line ministry did not release the money required to settle the advances.	- do -

2. Financial review  
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2.1 Financial Review  
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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. 147,229,986 as compared with excess of revenue over recurrent expenditure amounted to Rs. 129,257,227 in the preceding year.

2.2 Revenue administration  
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2.2.1 The performance of Revenue collection  
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Audit Observation	Comment of the Council	Recommendation
(a) The action had not been taken to collect the outstanding assessment tax of Rs.38,464,824 between the years 02 and 03.	As at 31 December 2021 Rs.2,260,800 has been collected. Even though efforts were made to recruit revenue collection officers, due to the presence of only one person, the deficient revenue could not be fully recovered.	The actions should be taken to recover the arrears of income

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| (b) | The council had not taken action to assess the property values of 14 divisions of the council area and collect the assessment tax for a period of 03 years. | According to Section 159 of the Local Council Act No. 15 of 1987, the Assistant Commissioner of Local Government has not declared the relevant 14 divisions as developed areas, so it is not possible to carry out the tax assessment work. | - do - |
| (c) | Rs.8,609,951 of longstanding arrears of rent and taxes had not been collected between last 02 and 05 years.   | The actions for recovery of outstanding balances are in progress and legal proceedings have also been initiated.  | - do - |

3 Operational Inefficiencies

----- <b>Audit Observation</b> -----	----- <b>Comment of the Council</b> -----	----- <b>Recommendation</b> -----
(a) The action had not been taken to recover the distress loan of Rs. 275,293 due from 05 officers between 02 and 05 years old.	The actions are been taken to recover.	Prompt action should be taken to recover of outstanding balances.
(b) For a business purpose, a land owned by the Municipal Council at Karadippokku Junction was leased and the lessee had constructed a permanent building on the land in violation of the terms of the agreement.	They have informed in writing that they will immediately remove the shop and hand over the land to the council without demanding any compensation.	The action should be taken to protect the property of the congregation.
(c) The Ownership of 15 used vehicles had not been transferred to the council.	The Certain vehicles are owned in the name of other government departments. Also, there are difficulties in obtaining ownership of vehicles with Western Province registration.	The Ownership of vehicles should be taken over immediately