

Kalutara Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalutara Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement , statement of changes in net assets/ 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 . 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 Kalutara Pradeshiya Sabha as at 31 December 2020 , and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities

1.2. Basis for Qualified Opinion

I express qualified opinion 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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, 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 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

National Audit Act, No. 19 of 2018 include 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 recommendations which I made on financial statements for the preceding year are included 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

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non -compliance with Reference to the Relevant Standard	Comments of the Sabha	Recommendation
Although the loan installment amount for the next year for a loan to be repaid should be stated as current liabilities in the statement of assets and liabilities in accordance with No. 15.8 Sri Lanka Public Sector Accounting Standards for Local authorities, the amount to be paid for the year 2020 amounting to Rs. 643,739 had not been shown as current assets.	When preparing accounts, it has not been instructed to do so.	The value of short-term loan installments should be shown under current liabilities.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation	
(a) Although the stock in hand with regard to 11 account items in the warehouse inventory was Rs, 152,866, due to accounting for as Rs.126,843 in the financial statements, the stock in hand had been understated by Rs. 26,023.	}	The accurate value of the stock in hand should be taken into final accounts.	
(b) Although the opening stock balance of electricity and contract related to 02 account items was Rs. 419,175 , as a result of accounting for it as Rs.431,505 in the financial statements, the opening stock in hand had been overstated by Rs. 12,330 .		It will be corrected from the final account 2021 .	The accurate value of the opening stock in hand should be taken into final accounts.
(c) Although the issue value related to 03 stores account items was Rs.114,775 , as it was stated as Rs.124,830, the surplus in the income statement had been understated by Rs.10,055.			Accurate values of issuing of stocks should be adjusted to the accounts.
(d) Instead of cost capitalization and make provisions for creditors as per payment records of work-in-progress of roads and other construction projects under Council provisions during the year , estimated cost of 28 projects amounting to Rs. 16,659,588 had been capitalized and indicated in the financial statements as creditors.	Even though 27 of the 28 projects have been completed by 31 December 2020 payment records had not been prepared. The balance will be adjusted and corrected in the preparation of the accounts of the year 2021 .	According to the work completion reports the creditors and the capitalization should be done.	

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| <p>(e) Although a sum of Rs. 251,000 had been paid for the purchasing of raw materials for contracts it had been shown as creditors in the financial statements.</p> | <p>It will be corrected from the final account 2021 .</p> | <p>The accurate creditor balance should be stated in the accounts.</p> |
| <p>(f) Because of accounting for Rs. 2,715,000 instead of Rs. 2,606,137 that should be allocated as creditors of 05 projects implemented under Council provisions, the creditors amounting to Rs. 108,863 had been overprovided.</p> | <p>The source documents to find out the cost have not yet been received. Finding the cost in future and will remove it from the books in the future to.</p> | <p>The accurate creditor balance should be adjusted in the final accounts.</p> |
| <p>(g) Actions had not been taken to recognize the cost of 116 types of goods auctioned and to remove from the books.</p> | <p>Receipts should be accounted for as donations.</p> | <p>After the auction, their cost should be removed from the books.</p> |
| <p>(h) The office equipment received as donations in the year 2019 under Puraneguma Project amounting to Rs. 3,503,097 had not been accounted for.</p> | <p>It will be corrected from the final account 2021 .</p> | <p>Employee credit receipts should be properly accounted for.</p> |
| <p>(i) Employee loans that was recovered during the year under review amounting to Rs. 242,828 had been stated as advances receivable.</p> | <p>The income for the year should be properly accounted for.</p> | <p>The income for the year should be properly accounted for.</p> |
| <p>(j) Even though fixed deposit interest income of the year under review was Rs. 764,990, as it was mentioned as Rs. 858,959, the interest income of the year had been overstated by Rs. 93,969 .</p> | | |

<p>(k) Although the fixed deposit balance as at 31 December 2020 was Rs. 9,555,176 , a sum of Rs. 475,108 had been overstated as it was mentioned as Rs. 10,030,284 in the financial statements.</p>		<p>It will be corrected from the final account 2021</p>	<p>The accurate value of the assets should be taken into account.</p>
<p>(l) The Members' allowance receivable for the year under review amounting to Rs.675,000 had not been accounted for.</p>		<p>Income for the year should be properly accounted for.</p>	

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Sabha	Recommendation
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<p>There was a difference of Rs.9,668,585 in between the financial statements pertaining to 03 account items and correspondence records.</p>	<p>The difference will be identified and corrected in future.</p>	<p>Balances in the financial statements and balances in the schedules should be equal.</p>

2. Financial Review

2.1 Financial Results

The income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs. 66,631,388 and the income exceeding the recurrent expenditure for the preceding year was Rs. 58,581,142 .

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

3.1 Management Inefficiencies

Audit Observation

A sum of Rs. 1,506,191 receivable for 06 projects from the year 2019 and early years had not been received even by the end of the year under review.

Comment of the Sabha

Funds were not received from the Kalutara Divisional Secretariat and the Department of Local Government.

Recommendation

Actions should be taken to obtain funds receivable for projects.