

## Kothmale 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 Kothmale Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account 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 Kothmale 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 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 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
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(a)	There were understatements of expenditure amounting to Rs. 60,595 on one occasion, overstatements of Rs.500,027 including Rs.162,000 as expenditure, Rs.5,200 as assets and Rs.332,827 as liabilities on 03 occasions and an omission of assets balance of Rs. 7,967,144 relating to one occasion in the financial statements.	It has been informed that the error will be corrected in the ensuing year.	Financial statements should be prepared accurately.
(b)	Even though the lands and buildings should be revalued and assessed by a qualified assessor and their values should be included in the accounts, without being assessed the value of 45 lands and buildings owned by the Sabha, they had been included in the financial statements at the values from Rs.325 to 98,000.	It has been informed that the error will be corrected in the ensuing year.	Assets should be valued and stated in the financial statements.
(c)	Without being separately stated the loan of Rs.2,208,221 payable in the ensuing year and the interest of Rs.503,414 for the loan obtained from the Local Loan and Development Fund as a current liability and the remaining amount as a long-term liability in the financial statements, the payable total loan amounting to Rs. 6,581,897 had been stated under the loan capital.	It has been informed that the error will be corrected in the final accounts of the year 2022.	Loan capital should be identified as loan-term and short-term separately.

## 1.6.2 Non-reconciled Control Accounts or Reports

### Audit Observation

### Comment of the Sabha

### Recommendation

Although value of 03 assets belonging to the Sabha had been stated as Rs. 9,549,089 in the financial statements, it was Rs. 8,397,367 according to the register of fixed assets. Accordingly, a difference of Rs.1,151,722 was observed.

It has been informed that action will be taken to account for the amounts in the future.

The differences of the accounts balances should be looked into and corrections should be made in the relevant schedules or financial statements.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 24,789,319 as at 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 28,575,448.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

### Audit Observation

### Comment of the Sabha

### Recommendation

#### (a) Rates and Taxes

Out of the Rates of Rs. 2,619,728 due from 1229 persons relating to 2608 assessment units as at 01 January of the year under review, a sum of Rs. 1,130,155 had not been recovered as at 31 December of the year under review.

It has been informed that a programme has already been prepared and implemented to recover the outstanding Rates and action will be taken to recover the arrears by prohibiting the movable properties.

Arrears of revenue should be recovered.

#### (b) Other Income

Arrears of water charges of Rs.230,219 due from 47 water consumers that remained outstanding over a period ranging from 01 to 6 ½ years as at 31 December of the year under review had not been recovered.

It has been informed that the arrears will be recovered without delay.

Arrears of revenue should be recovered.