

## **Kahawatta 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 Kahawatta 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, 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 Kahawatta 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 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) According to the requirement referred to in Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018, except paragraph 1.6.1 (d) of this report, the recommendations made by me in the previous year are included in the submitted financial statements.

## 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) The business and industry tax balance to be billed relating to the year under review amounted to Rs. 536,850. But the amount of Rs.396,700 received in cash had been shown as billing and as such the operating surplus had been under stated by Rs. 140,150.	It has been informed that, due to the Covid epidemic situation in the country most of the business premises were closed as such the revenue received actually had been shown as billing and action will be taken to rectify this lapse from the year 2022.	The accounts should be taken on accrual basis.
(b) A sum of Rs. 84,500 incurred for 05 computer printers in the year under review was posted twice in the asset account.	It has been informed that, action will be taken to rectify in preparing of final accounts of the year 2022.	The value of the fixed assets purchases should be correctly identified and accounted for.
(c) The advertisement hoarding charges amounting to Rs. 317,940 and environment license revenue amounting to Rs. 52,000 received in cash in the year under review had been brought to account on cash basis.	It has been informed that, charges received for the year had been brought to account relating to the year.	The revenue should be taken into account on accrual basis.
(d) Action had not been taken to rectify 04 accounting deficiencies pointed out under 1.2(a), (b) and (c) of the Report of the Auditor General of the previous year.	It has been informed that, action will be taken to rectify in preparing final account of the year 2022.	The deficiencies pointed out should be rectified.

## 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. 388,335 was observed between the balances as per financial statements as at the end of the year under review relating to 03 items of accounts and as per the subsidiary register.	It has been informed that the interest up to 31 December 2021 has been assumed and calculated, and as such a balance of Rs. 2,589,825 was shown as per financial statements and a difference was shown due to the fact that the paid installment of Rs. 194,688 is stated as arrears of installment by that institution.	The balances shown in the financial statements should be reconciled with the schedules.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 8,861,704 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 8,016,690.

### 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 Rs. 1,102,910 relating to 467 assessment units comprising a balance of arrears amounting to Rs. 96,501 receivable from 17 government institutions and a balance of Rs. 1,006,409 receivable from 450 private units as at the end of the year under review and the Sabha had not taken action to recover those arrears.	It has been informed that, even though the Sabha had unanimously decided that it is appropriate not to implement the revenue recovery activities in view of the collapse of income sources of the people.	Prompt action should be taken to recover revenue receivable to the Sabha.

**(b) Advertisement hoarding charges**

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The Sabha had conducted a survey on advertisement hoardings for the year 2021 and 28 advertisement hoardings were identified relating to 28 institutions. Out of that a sum of Rs. 238,232 relating to 08 institutions had remained in arrears from the year 2020 but action had not been taken to recover the arrears of revenue.

It has been informed that, the final notices had been issued, due to the covid pandemic situation, movement restrictions have been imposed and attendance of the officials has been restricted so it has not been possible to recover the relevant money.

Action should be taken to recover revenue in time.

**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.

**Operating Inefficiencies**

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**Audit Observation**

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(a) The backhoe machine of the Sabha is given to various parties on the recommendation of the chairman on rental basis informally and 139.5 machine hours were given to the members of the sabha on 23 occasions for various tasks without obtaining a decision of the Sabha. The backhoe machine was given to 6 persons on rental basis in the year under review and for 25 machine hours an income of Rs. 62,500 was received at the rate of Rs. 2,500 per hour. During the year under review a sum totaling Rs. 392,088

**Comments of the Council**

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It has been informed that, in giving the backhoe machine for public purposes, according to the request of people it is given by the Hon. Chairman through the ward member and the Sabha has to incur more expenses than before because the spare parts worn out and the driver driving tractors in addition to the backhoe machine.

**Recommendation**

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In giving assets on rental basis it should be given under proper methodology.

was incurred comprising Rs. 573,543, Rs. 262,213 and Rs. 129,875 for salary and allowances of the backhoe operator, fuel expenses and repair expenses respectively. Accordingly it was observed that, the property of the Sabha had not been utilized effectively.

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| (b) | <p>The building built for petrol storage in Andana new town which belonged to Atakalampanna Pradeshiya Sabha before establishment of Kahawatta Pradeshiya Sabha has been leased to a person on 24 May 1995. Since the lessee had obtained a deed from the land Reform Commission on 24 July 2019 for the land with the building it was observed that there is a risk of losing this property to the Sabha. Further, these lessees should be paid the relevant house rent and the delay charges amounting to Rs. 112,100 to the Pradeshiya Sabha from the year 2019 to March 2022, the date of audit.</p> | <p>It has been informed, that the Kahawatta Pradeshiya Sabha had given a block of land in extent of 22 perches by a lease agreement in the year 1995. The lessee had paid rentals up to 2018 and after that paying of tax had been defaulted. As the land has been acquired illegally on 24 July 2019 through a deed of sale, a case has been filed in the Pelmadulla District court against those persons.</p> | <p>Action should be taken to recover arrears of house rent and to evict the unauthorised dwellers and take possession of the property.</p> |
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**4. Accountability and Good Governance**

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**Environmental Problems**  
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**Audit Observation**

**Comments of the Council**

**Recommendation**  
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 A plan to dispose of solid waste in the authoritative area of the sabha had been prepared in the year under review, but it was not revealed that action had been taken accordingly. A cost of Rs. 3,537,624 and 15 employees, and 06 vehicles and

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 It has been informed, that an open waste disposal is being done from the year 2003, the acquisition of the waste disposal land to the Sabha is being

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 Waste should be disposed of in a manner that minimizes environmental damage.

machineries had been utilized to dispose about 855.5 metric tons of waste. However without following a formal and environment friendly methodology to dispose of the 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

expedited, and the plans are being made to reduce the amount of waste dumped gradually at this site after the program commenced.