

## **Galewela Pradeshiya sabha – 2020**

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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 Galewela Pradeshiya sabha for the year ended 31<sup>st</sup> December 2020 comprising the balance sheet as at 31<sup>st</sup> December 2020, income and expenditure account, Cash flow statement and notes to the financial statements including a summary of significant accounting policies 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 report to parliament appear in this report.

In my opinion, except for the effects of the 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 Gallewala Pradeshiya Sabha as at 31<sup>st</sup> December 2020 and of its financial performance 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 skepticism 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 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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The National Audit Act No.19 of 2018 contains special provisions regarding the following requirements.

- The financial statements of Pradeshiya Sabha are consistent with the previous year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No.19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented 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

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### 1.6.1 Accounting Deficiencies

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Audit observation	Comments of the Sabha	Recommendation
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(a) Although the total amount due for computer courses in the year under review was Rs.724,500, Only Rs.455,300 received in cash for the year was accounted for as income.	The shortage was due to the closure of the centre due to the prevailing epidemic situation in the country and the failure to pay the course fees.	Transaction should be correctly accounted for.
(b) According to the schedules submitted, the Consumer Goods had an initial balance of Rs.37,259 as on 1 <sup>st</sup> January 2020, but the stock had been overstated by Rs.24,050 as it was Rs.61,309 in the financial statements.	The shortcomings pointed out are acknowledged and will be rectified in the preparation of the accounts for the year 2021	Financial statement should be correctly prepared.
(c) The total of 02 Deposit Account balances amounting to Rs.136,765 which brought forward in the Deposit Registry, were not shown under Deposits in the Financial Statement for the year under review.	The shortcomings pointed out are acknowledged and will be rectified in the preparation of the accounts for the year 2021.	Financial statement should be correctly prepared.

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| (d) | During the year under review, a total of Rs.572,568 incurred for the building development activities of the Sabha on three occasions had not been capitalized.   | That, It will be corrected in the preparation of accounts for the year 2021   | Financial statement should be correctly prepared.  |
| (e) | 116 acres of 03 roods and 17 perches of land belonging to 82 cemeteries owned by the Sabha had not been taken over by the Sabha and assessed and the relevant values had not been presented in the financial statements. | The necessary steps will be taken to take over by the Sabha through a committee.  | It should identify and assess the assets and include them in financial statements.                   |
| (f) | Arrears billboard charges due for the year under review had not been calculated and accounted for.   | It was unable due to the prevailing epidemic situation. Action will be taken to charge for the relevant billboards in the year 2021 and to remove the billboards for non-payers of charges. | Outstanding balances should be calculated and included in the financial statements.                  |
| (g) | There were 03 vehicles with total value of Rs.46,302,939 which were mentioned in the list of vehicles submitted for audit but not included in the Motor vehicles and Carts Schedule of the Financial Statement.          | This will be corrected by recording them in the Motor vehicles and carts schedule when preparing 2021 accounts.   | Value of Assets should be included in the Financial statement  |
| (h) | 05 lands with a total value of Rs.104,000 mentioned in the Land and Buildings Register were not mentioned under the Lands and Buildings in the Statement of financial position.  | As those values have not been taken into account in the preparation of the accounts, they will be taken into account in the next year.  | Assets should be accurately identified and the value should be included in the Financial statements. |
| (i) | The balance of four vehicles, the total value of Rs.758,300 which was not confirmed to be in the possession of the Sabha was included in the schedule of Motor vehicles and carts.                                       | That, facts will be looked into and Action will be taken to correct.  | Vehicles owned by the Council should be identified and verified.                                     |

## 1.6.2 Un-reconciled Control Accounts or Records

Description	Comments of the Sabha	Recommendation
There was a difference of Rs.16,778,749 in relating to the value of 03 accounts subject Since it was Rs.69,368,001 as per the Financial statements and Rs.52,589,252 as per the Schedules/reports.	A committee has been appointed to look into the long-standing unresolved issues in the inventory registry and is currently working on it.	Financial statements need to be correctly prepared by adjusting the difference.

## 1.6.3 Lack of Audit Evidence for Audit

Un-submitted Audit evidence	Comments of the Sabha	Recommendation
Schedules, payments and balance confirmations pertaining to 04 account subjects valued at Rs.68,115,631 had not been submitted for audit.	Listed here are expenses of library books, office equipment, and construction of the floor of the Doraketiwala Garbage yard. It will be corrected in the preparation of accounts of 2021	Action should be taken to submit the information required for the audit.

## 1.7 Non-compliance

### Non-compliance with Laws, rules, regulations and management decisions

The following are the instances of non-compliance with the provisions of laws, rules, Regulations and management decisions.

Reference to laws, rules and regulations	Non-compliance	Comments of the Sabha	Recommendation
(a) Acts			
I. National Environmental (Amendment) Act No.56 of 1988 of the Democratic Socialist Republic of Sri Lanka dated 17 <sup>th</sup> December 1988	Although action should be taken to conduct a survey on businesses holding trade licenses and issue environmental protection licenses, In relating to 254 businesses, 254 trade licenses had been issued without examining whether it has acted accordingly.	That action will be taken to issue the environmental permits to be issued by the Council	The act should be complied with.

II. Pradeshiya Sabha  
(Financial and  
Administrative)  
Rules of 1988

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Rule 177

Although tender procedure should be followed for all supplies above Rs.5,000, On two occasions during the year under review, saucer cups, sand and metal were purchased for Rs.331,394 without calling a quotation.

The shortcomings pointed out in the audit are acknowledged. From now on, bids will be made through the formal purchasing system.

It should act in accordance with Pradeshiya Sabha (Financial and administrative) rules of 1988.

(b) Code of Financial  
Regulations of the  
Democratic Socialist  
Republic of Sri  
Lanka

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Financial regulation  
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The damage to the motor grader and compactor truck was repaired at a cost of Rs.91,608 with the approval of the Council. No action had been taken to obtain insurance compensation and no liability had been determined after an investigation.

A request has been made to the Assistant Commissioner of Local Government to re-appoint the Board of Inquiry due to the transfers of the officers of the Board of Inquiry.

Financial regulations should be followed.

(c) Public  
Administration  
Circular No.03/2016  
dated 29<sup>th</sup> August  
2016.

Rs.16,000 uniform allowances had been given for 04 officers belonging to ranks who are not entitled to receive the uniform allowance.

As the number of employees is not sufficient, these employees have been assigned to these duties with the approval of the Council and have been provided with these uniforms to perform the duties relevant to those posts and to perform their duties in a proper manner.

Circular provisions should be followed.

## 2. Financial Review

### 2.1 Financial results

According to the financial statement presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31<sup>st</sup> December 2020 amounted to Rs.10,454,775, as compared with the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.15,025,348.

### 2.2 Revenue administration

#### 2.2.1 Performance in Revenue collection

<b>Audit observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>Rates</b>		
The billed rates and tax amount for the year under review was Rs.1,917,413 and the opening rates in arrears amount was Rs.1,435,691. Accordingly, out of the total amount of Rs.3,353,104, only Rs.1,748,000 or 52 percent was received for the year under review. No action had been taken to recover the arrears of Rs.1,548,718 at the end of the year under review.	That the collection could not be carried out, due to the closure of institutions due to the epidemic situation	Action should be taken to recover the revenue immediately in terms of Section 158 of the Pradeshiya Sabha Act No.15 of 1987.

## 3. Operational Review

Following matters were revealed with regard to duties to be fulfilled by sabha as per the Section 03 of the Pradeshiya sabha Act, in relating to regulation and control of all the matters relating to Public health, Public utility services and public highways, comfort, convenience and welfare of the people.

### 3.1 Management inefficiencies

<b>Audit observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
The total value of Rs.14,697,459 which is stated in the financial statements as long standing unrecognized balance, including Industrial deposits amounting to Rs.3,406,241, public deposits of Rs.10,892,664 and tender deposits of Rs.398,554 had not been settled during the year under review.	A separate committee has been appointed to look into the long-standing unrecognized balances and the issues are currently being studied.	Action should be taken to identify and settle balances.

### 3.2 Procurement Management

#### Audit observation

The quotation did not specify the amount of building materials purchased at Rs.6,283,998 for the Niwasa Piyasa program and the materials purchased for the needs of infants under the maternity program at Rs.1,973,047.

#### Comments of the Sabha

That, It was not mentioned in the Quotation.

#### Recommendation

It should comply with the provisions of Guideline 3.5.1 of the Government Procurement Guidelines.

## 4. Accountability and Good governance

### 4.1 Environmental issues

#### Audit observation

- (a) Although the recyclable waste of the Garbage yard maintained by the Galewela Pradeshiya Sabha has been sorted and stored, Due to non-compliance with the Local government Commissioner's Circular No.4/1/2020 dated August 24<sup>th</sup> , 2020, the capacity of the warehouses was exceeded and iron and aluminum alloy waste was piled up at various places in the yard.

- (b) Although there were two buildings in this garbage yard that were built to collect degradable waste and produce compost, The degradable garbage is taken and handed over to the Kawashima Garbage Yard in Dambulla every Wednesday by the Galewela Pradeshiya Sabha at a cost of Rs.1,000 per ton. 48 tons of garbage had been handed over in the year 2020 and Rs.48,000 had been paid for it.

#### Comments of the Sabha

It is planned to sell the material to the relevant agencies in the future

As this project failed, the degradable waste will be sent to the Kawashima project.

#### Recommendation

The provisions of Circulars should be followed.

The failed project would have to be turned into an effective project.



(c) During the year under review, shop licenses had been issued for 31 pig farms for which environmental permits were not issued without meeting the required criteria.

The Central Environmental Authority and the Public Health Inspector's Office, the Veterinary Office, the Divisional Secretariat, the Galewela Police Station will be working together to implement a quality program for this purpose in future.

The act should be complied with.