

## **Polgahawela 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 financial statements of the Polgahawela Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, cash flow statement for the year then ended and 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 Subsection 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 financial statements give a true and fair view of the financial position of the Polgahawela Pradeshiya Sabha as at 31 December 2020, and 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 based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 of the Sabha.

#### 1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 skepticism 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 Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 presented by the Pradeshiya Sabha are 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 financial statements presented includes all the recommendations made by me in the previous year 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	Comment of the Sabha	Recommendation
Twenty plots of land worth Rs. 19,856,041 that had been vested in the Sabha as at 31 December of the year under review and 09 constructions worth Rs. 64,314,679 had not been capitalized.	Action will be taken to correct this in the preparation of financial statements for the year 2021.	Lands and buildings should be capitalized.

### 1.6.2 Non-reconciled Control Accounts or Reports

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Audit Observation	Comment of the Sabha	Recommendation
A difference of Rs. 1,060,522 was observed between the values shown in the financial statements and corresponding reports and action had not been taken to correct the accounts by reconciling the difference.	Corrective measures will be taken on those differences.	Action should be taken to reconcile and correct the differences in the relevant balances.

## 1.7 Non-compliances

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 Non-compliances with Laws, Rules, Regulations, and Management Decisions  
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Instances of Non-compliances with Laws, Rules, Regulations, and Management Decisions are as follows.

<u>Reference to Laws, Rules, and Regulations, etc.</u>	<u>Non-compliance</u>	<u>Comment of the Sabha</u>	<u>Recommendation</u>
Regulation 571 (3) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	A number of 210 deposits older than 02 years valued at Rs. 5,622,578 had not been credited to the Government revenue.	Action will be taken to credit the deposits older than 02 years valued at Rs.5,622,578, to the revenue.	The Financial Regulations should be followed.

## 2. Financial Review

### 2.1 Financial Result

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According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 26,057,501 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 8,851,966.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

<u>Audit Observation</u>	<u>Comment of the Sabha</u>	<u>Recommendation</u>
a) Action had not been taken to recover a stall rent totaling Rs.1,192,709 that had remained recoverable from 14 stalls since the year 2016.	Cases have been filed for certain stalls whilst action has been taken to recover through Board of Arbitration. Action will be taken to recover from other stalls.	The outstanding monies should be recovered in a timely manner.
b) Court fines totaling Rs.3,760,000 and stamp fees totaling Rs.53,407,208 remained receivable as at 31 December 2020 from the Chief Secretary of the Provincial Council and the other officers respectively.	Action will be taken for the recovery of court fines and stamp fees receivable as at 31 December 2020.	Action should be taken to recover those monies.

### 3. Operating Review

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The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas Act , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

#### 3.1 Performance

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##### (a) Lack of Provision

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Audit Observation	Comment of the Sabha	Recommendation
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A sum of Rs. 25,122,663 had been spent from the fund on 81 industries that had not been included in the budget for the year 2020, thus completing them fully.	Despite being included in the budget of the year 2020 for the implementation of proposals to be prioritized, such proposals had been implemented considerably under the “Sapiri Gamak” programme.	The budgeted proposals should be implemented.

##### (b) Solid waste management

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Audit Observation	Comment of the Sabha	Recommendation
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A shelter had been constructed at the waste segregation area of the solid waste management center. However, the waste being brought daily, had been dumped openly. The non-degradable waste collected daily had been dumped around the land used for solid waste. During the year 2020, an amount of 4,500 kg of compost fertilizer had been manufactured by using 1,070 tons of waste generated in the year 2020, and of that, 3,690 kg had been sold thereby earning an income of Rs.34,560. Although 41,605 tons of non-degradable waste had been generated during the year, no management had been done thereon.	The waste being brought in daily is kept on the open ground for 03 – 04 days before being stacked at the sheltered area, so that the breeding of flies is low. Due to lack of space in the sheltered area, the degradable waste is dumped on the open ground as well. As the BobCat had become non-functional, the brailed polythene could not be brought into the stores, and those polythene had been dumped.	The degradable and non-degradable waste should be managed properly.

### 3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Sabha	Recommendation
<p>Four machines obtained in the year 2014 to produce interlock paving stones at a value of Rs. 1,397,152 to be used for the project to lay paving stones, were laying at the premises of the Sabha in the year 2020 without being used.</p>	<p>Action has been taken to recommence the paving stone project from the year 2021.</p>	<p>The assets owned by the Sabha should be made use of.</p>