

Galigamuwa Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Galigamuwa Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Performance 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 accompanying financial statements give a true and fair view of the financial position of the Galigamuwa Pradeshiya Sabha as at 31 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

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

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)**

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 includes 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 Act.
- (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 Act.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) While the total cost of fixed assets had been accounted as capital expenditure in the year of purchase, annual depreciation amounting to Rs.4,140,315 had been accounted as recurrent expenditure and as a result, surplus for the year had been understated by that amount.	Informed that it agrees with the fact pointed out by the audit and it will be rectified by a journal entry in the coming financial year.	One depreciation policy should be followed.
(b) The expenditure of Rs.85,645 incurred on upgrading machinery and equipment and buildings during the year under review had not been capitalized.	Informed that corrections will be made in the coming financial year.	Non-current assets should be capitalized.

1.7 Non Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with the provisions of the laws, rules, regulations and management decisions were given below.

References to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 154 of the Pradeshiya Sabhas Act No. 15 of 1987, and the Sections 3 (iv) and 3 (x) of Circular No. 2005/04 dated 01 June 2005 of the Sabaragamuwa Local Government Commissioner.	Although it is required to obtain a tax of 01 percent of the sale value of the lands allotted for sale by obtaining details from the Land Registration Office, tax amounting to Rs.842,944 had been charged only on the assessed value from the year 2015 to the year 2020.	Informed that steps are being taken to obtain the appropriate deed value as it is a complex task and that a suitable mechanism will be set up in the future to obtain the appropriate deed value from the Office of the Registrar of Lands.	Should act in accordance with the Act and the Circular.
(b) Paragraphs 3.3 of the Public Finance Circular No. 01/2012 dated 05 January 2012	Even though the contracted community based organization/ society should be registered in the jurisdiction and should not be engaged in more than 03 contracts, in contrary to that, it had been entered 04 contracts valued at Rs.1,980,000 with the Bisowela farmers' organization during the period from March to May 2020.	Informed that 04 contracts had been contracted with Bisowela Farmers' Organization for the period from March to May 2020 by mistake and that it would ensure to act in accordance with the provisions of the Public Finance Circular.	Should act in accordance with the Circular.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.11,305,512 as compared with the excess of revenue over recurrent expenditure amounted to Rs.6,333,270 in the preceding year.

2.2 Revenue Administration

 Performance in Revenue Collection

Audit Observation -----	Comments of the Council -----	Recommendation -----
<p>(a) Rates and taxes -----</p> <p>At the end of the year under review, the outstanding rates balance was amounted to Rs.561,245. Action had not been taken to recover these balances.</p>	<p>Informed that due to the Corona situation in the year 2020, the property ban was not carried out and due to the vacancies in the post of Revenue Inspector, there were delays in revenue collection as it was difficult for one Revenue Inspector to cover all the 03 divisions.</p>	<p>Action should be taken to recover the outstanding balances.</p>
<p>(b) Rent -----</p> <p>The outstanding balances of vehicle rent at the end of the year under review was amounted to Rs.1,246,145.</p>	<p>Informed that the relevant institution has been informed in writing to recover the outstanding balances of vehicle rental income.</p>	<p>Action should be taken to recover revenue due.</p>
<p>(c) Stamp Duty -----</p> <p>The stamp duty balance between 01 to 03 years as at 31 December 2020 receivable from the Chief Secretary and other authorized officers of the Provincial Council, was amounted to Rs.3,165,812.</p>	<p>It has been informed that action will be taken to recover the stamp duty balance. In future, it will be taken to recover the stamp duty due to the Council.</p>	<p>Action should be taken to recover the revenue due to the Council.</p>

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) When the Bandarahena land was allotted, the plan and block plan of the relevant land had been approved before receiving the clearance certificate from the National Building Research Organization and two plots of land which had not received the land clearance certificate had been sold. Also, two plots of land which had been recommended to obtain a certificate of clearance from a professional had been sold without obtaining reports.</p>	<p>It is accepted that the block plan of the land has been approved before receiving the recommendations of the National Building Research Organization and it has been informed that action will be taken to approve the block plans only after obtaining the recommendations required from that institution and other government agencies.</p>	<p>Further action should be taken after obtaining recommendations from the relevant institutions.</p>
<p>(b) Even though the tax of 01 percent that should be charged on the estimated value of the land when selling 17 plots of land in Ambanpitiyawatta was amounted to Rs.217,230, a sum of Rs.60,000 only had been charged for 08 plots of land and as a result, the council had lost revenue amounting to Rs, 157,230.</p>	<p>The auctioneer was informed to pay the remaining sum of Rs.157,230 to the council immediately and steps would be taken to recover the amount accordingly.</p>	<p>Action should be taken to recover the revenue due.</p>