

Ruwanwella Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ruwanwella 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 Operations 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 Ruwanwella 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
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(a) Instead of accounting estimated stamp duty income as the revenue of the year under review, the stamp duty income for few months confirmed through the schedules has been taken into account as the revenue of the year and as a result, stamp duty income and stamp duty receivable has been understated by Rs.4,690,578.	Informed that action would be taken to rectify this in the coming year.	Revenue should be properly accounted.
(b) Even though the balance of 06 revenue objects as at 31 December last year was Rs.10,653,851, it had been understated by Rs. 1,747,441 at the beginning of the year under review.	Informed that action will be taken to rectify when preparing the final account for the year 2021.	Accounts should be corrected.
(c) Action had not been taken to find the reasons and correct the decrease of Rs.850,918 in the debit balance of the Staff Loan account in the main ledger as at 31 December 2020. The account was balanced by a single entry as "balance adjustment".	Informed that action will be taken to rectify when preparing the final account for the year 2021.	Accounts should be corrected.
(d) During the year under review, instead of adjusting the difference between the beginning and closing balances of 03 stores balances valued at Rs. 756,395 to the accumulated fund, it had been transferred to the revenue contribution to capital application account.	Informed that action will be taken to rectify this in the preparation of the final account for the year 2021.	Accounts should be corrected.

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| (e) | During the year under review, inventories valued at Rs. 3,032 and fixed assets valued at Rs. 567,989 recommended for auction had been deducted from the inventories of general stores and fixed assets account before the auction and also adjusted to the revenue contribution to capital application account. | Informed that action will be taken to rectify this in the preparation of the final account for the year 2021. | The value of the assets should not be removed from the accounts until the auction. |
| (f) | Instead of adjusting the difference of Rs.382,136 in the Contract Grant Receivable account to the accumulated fund, the entire balance at the beginning had been adjusted to the accumulated fund. | Informed that action will be taken to rectify this in the preparation of the final account for the year 2021. | Accounts should be corrected. |
| (g) | Even though the court fine receivable for the year under review was amounted to Rs.6,102,505, it had been taken to accounts as Rs. 5,769,505. As a result, the court fine income for the year under review and the court fine income receivable had been understated by Rs.333,000. | Informed that action will be taken to rectify this in the preparation of the final account for the year 2021. | Accounts should be corrected. |
| (h) | Fixed deposit interest income for the year under review of Rs.252,640 and the interest income receivable of Rs.231,663 had been under accounted. | Informed that action will be taken to rectify this in the preparation of the final account for the year 2021. | Accounts should be corrected. |
| (i) | During the year under review, loan advances amounting to Rs.780,000 given for public representatives had been accounted as general administration allowances and a sum of Rs.600,000 received from that amount had been accounted as salary reimbursement. Therefore, a sum of Rs.180,000 further due was not shown under current assets and the operating surplus was understated by the same amount. | Informed that action will be taken to rectify this in the preparation of the final account for the year 2021. | Accounts should be corrected. |
| (j) | Furniture and fittings purchased during the year under review with a value of Rs. 104,800 had been accounted under miscellaneous expenditure and as a result, furniture and fittings and operating surplus for the year had been understated by the same amount. | Informed that action will be taken to rectify this in the preparation of the final account for the year 2021. | Revenue and capital expenditure should be accurately identified and accounted. |

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| (k) | Instead of crediting the salary reimbursement receivable account to correct the overstatement of salary reimbursement due for the month of December last year by Rs.51,119, it had been debited and as a result, receivable balance as at 31 December 2020 had been overstated by Rs.102,238. | Informed that the difference between the amount of salary reimbursement receivable for November 2019 and the amount actually paid in December was the overstated amount of salary reimbursement receivable. | Accounts should be corrected. |
| (l) | The value of 60 lands stated in the Land and Building Schedule of the year under review, the value of the Ruwanwella weekly fair and Huller machine owned by the Sabha and the stock of fertilizer produced under the compost project had not been identified and accounted. | Informed that action will be taken to rectify this in the preparation of the final account for the year 2021. | Costs should be identified and accounted. |
| (m) | Even though the value of non-current assets at the end of the year under review was Rs.274,982,336, the balance of revenue contribution to capital application account was Rs.275,674,705 and therefore there was a difference of Rs. 692,369 between those two accounts. | Informed that action will be taken to rectify this in the preparation of the final account for the year 2021. | Accounts should be corrected by reconciling differences. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation -----	Comments of the Council -----	Recommendation -----
There was a difference of Rs.4,575,087 since the value as per the financial statements pertaining to 08 account subjects was amounted to Rs.345,475,284 and Rs.340,900,197 as per the schedules.	Informed that action will be taken to correct in the year 2021 and the difference in the revenue items will be the difference between the receipts during the year under review for the coming year and the receipts during the previous year for the year under review.	Balances stated in the financial statements should be reconciled with the relevant supporting documents.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation -----	Comments of the Council -----	Recommendation -----
Information required for the audit in respect of 03 account subjects with a total value of Rs.40,709,453 had not been submitted.	Informed that action will be taken to rectify this in the preparation of the final account for the year 2021.	Written evidences should be submitted to verify the account balances.

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.1,121,730 had been charged only on the assessed value of the allotted lands from the year 2010 up to the year under review.	Informed that action will be taken as per the circular in future.	Should act in accordance with the Act and the Circular.
(b) Financial Regulation 571(3) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	The non-refundable deposits received from the year 2018 to the year under review amounting to Rs.637,537, had been retained as deposits without crediting to revenue during the relevant years.	Informed that action will be taken to rectify this prior to the preparation of the final account for the year 2021.	Financial regulations should be followed.
(c) Section 41 (1) of the Value Added Tax Act No. 14 of 2002	The amount of the defaulted tax and the penalty thereon declared to the Sabha on 16 September 2019 was amounted to Rs.627,863. However, according to the account, the tax payable was Rs.427,843 and action had not been taken to settle it until the date of the audit. Also, the value added tax returns pertaining to that period were also not submitted to the audit.	Since a file could not be found to verify the information, other documents were being examined and it has been informed that action will be taken to rectify this in the preparation of the final account for the year 2021.	Action should be taken to identify and settle the correct amount of tax to be paid.

- (d) Section 06 of the Nation Building Tax Act No. 09 of 2009 According to the notice made on 30 September 2019, the amount of tax defaulted and the relevant penalty was amounted to Rs.77,340. However, according to the final account, a sum of Rs.257,646 and Rs.218,840 had been stated as payable and prepayments respectively. Action had not been taken to settle these balances until the date of audit and Nation Building Tax returns had not been submitted for that period.
- Since a file could not be found to verify the information, other documents were being examined and it has been informed that action will be taken to rectify this in the preparation of the final account for the year 2021.
- Action should be taken to identify and settle the correct amount of tax to be paid.

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. 6,709,574 as compared with the excess of revenue over recurrent expenditure amounted to Rs.7,519,782 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) Action had not been taken to recover the outstanding rates balance amounted to Rs.3,992,934 at the end of the year under review.	Informed that further 85 properties had been referred to the Local Government Commissioner's Office to write-off outstanding money and although 80 properties had been named as removed properties, further action would be taken immediately after obtaining the approval of the general meeting to write off the arrears on those properties.	Action should be taken in accordance with the Act and the arrears should be recovered.

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| (ii) | The outstanding acreage tax balance was amounted to Rs.91,394 at the end of the year under review. | Informed that action will be taken to recover the arrears in the future. | Action should be taken to recover the arrears. |
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| (b) | Rent
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| (i) | The outstanding rentals of weekly fair, fish stalls and meat stalls amounting to Rs.1,618,903 as at the end of the year under review had not been recovered. | Informed that one stall has been legally prosecuted, and action was being taken to recover the remaining arrears of meat stalls. | Action should be taken to recover the arrears. |
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| (ii) | At the end of the year under review, outstanding rentals of public market and non-public market stalls were amounted to at Rs.4,461,797 and the outstanding fines were amounted to Rs.763,801. | Informed that the main reason for the low level of collection was the Covid pandemic situation and that the Revenue Inspectors had been informed to recover the arrears and the taxpayers had also been informed in writing to pay the arrears. | Action should be taken to recover the arrears. |

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 Transactions of Contentious Nature

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Even though according to Section 2 of the Circular No. 2009/01 dated 22 December 2009 of the Commissioner of Local Government, the combined allowance can be paid to the Chairman only for official travel outside the relevant local government area, in contrary to that, a sum of Rs.87,000 had been paid from January to March 2020 as Rs.1000 for each day including all days of the month.	Informed that this was due to an issue in writing the running charts and after pointing out by the audit, the drivers and other officers were instructed and rectified this issue.	Should act in accordance with the circular.

- (b) There was a difference of 17,554 km between the Milo meter of a cab owned by the Sabha and the number of kilo meters mentioned in the daily running charts. Thus, 2,507 litres of more fuel worth of Rs.260,728 had been obtained. Informed that the driver of the vehicle had been asked to submit a statement regarding the difference but statement had not been given and further action would be taken immediately. It is required to check whether any anomaly had been occurred.

3.2 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
<p>-----</p> <p>There were 28 vacancies in 13 posts and 24 excess staff in 06 posts. The post of Secretary which directly affects the operational activities of the Pradeshiya Sabha has been vacant since 31 March 2011, 02 posts of Librarian, the post of Solid Waste Centre Keeper and the post of Field Supervisor have been vacant since 21 January 2013 and the post of Planning has been vacant since 23 September 2015. Action had not been taken to fill the vacancies, to get the excess staff approved or to revise the cadre.</p>	<p>-----</p> <p>It has been forwarded to create posts due to the obstruction of duties due to the shortage of staff and the Sabha has passed to request for confirmation of the staff recruited on casual basis and further action will be taken accordingly.</p>	<p>-----</p> <p>Action should be taken to fill the vacancies and get the excess staff approved or the cadre revised.</p>

4. Solid Waste Management

Environmental Observations

Audit Observation	Comments of the Council	Recommendation
<p>-----</p> <p>Even though the Sabha had used to produce compost manure from about 365 tons of garbage collected yearly, it had to dispose of the remaining non-perishable material produced in the garbage yard on a private land obtained on annual rent amounting to Rs.300,000 due to lack of suitable space.</p>	<p>-----</p> <p>Informed that a land has been acquired for a sanitary landfill and further action is being taken by the Central Environmental Authority in this regard.</p>	<p>-----</p> <p>A place should be obtained for the disposal of the remaining non-perishable material.</p>