

## **Warakapola 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 Warakapola 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 Warakapola 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**

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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 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

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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

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### 1.6.1 Accounting Deficiencies

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Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Instead of adjusting repayment of loan instalments amounting to Rs.1,279,645 to the Local Loan Development Fund, it had been accounted as capital expenses and as a result, surplus for the year had been understated by that amount.	Informed that action would be taken to rectify this in the coming year by adjusting the repayments to the Local Loan Development Fund.	Loan instalments should be accounted accurately.
(b) The aggregated value of Rs.967,649 incurred for the purchase of non-current assets had been accounted as recurrent expenditure and as a result, operating surplus for the year had been understated by that amount.	Informed that recurrent expenditure and capital expenditure will be accurately identified and accounted when preparing the final account for the year 2021.	Capital and revenue expenditure should be accurately identified and accounted.
(c) Even though according to the stock verification report, the stock of Ayurvedic medicines as at 31 December 2020 was amounted to Rs.922,478, it had not been stated in the financial statements.	Informed to rectify in the final account for the year 2021.	Assets exiting at the end of the year should be accounted without omitting.
(d) Rates and acreage tax received for the coming year totalling Rs.421,038 had been accounted as revenue for the year under review and as a result, operating surplus for the year had been overstated by that amount.	Informed to rectify in the final account for the year 2021.	Income relevant to the year under review should only be accounted.

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| (e) | Recurrent expenditure related to 05 objects amounting to Rs.405,809 had been accounted as capital expenditure and as a result, the operating surplus for the year had been overstated by that amount.   | Informed that recurrent expenditure and capital expenditure will be accurately identified and accounted in the preparation of the final account for the year 2021. | Recurrent and capital expenditure should be accurately identified and accounted.                        |
| (f) | The total value of interest received and account balance amounting to Rs.103,397 received at the time of cancellation of the environmental account in the year under review had been accounted as income instead of adjusting to the accumulated fund and as a result, the operating surplus for the year had been overstated by that amount. | Informed that observations were accepted.  | Accounts should be corrected.   |
| (g) | The compost fertilizer stock with a value of Rs.51,000 and the work in progress at the end of the year under review had not been counted and accounted.   | Informed that action will be taken to account from the final account for the year 2021.  | The finished and work in progress compost stock at the end of the year should be counted and accounted. |
| (h) | The value of 23 lands and buildings owned by the Sabha had not been identified and accounted.   | Informed that action will be taken to recognize and account the values of lands and buildings by the verification of the year.                                     | The value of lands and buildings should be identified and accounted.                                    |

## 1.6.2 Documentary Evidences not made available for Audit

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Audit Observation -----	Comments of the Council -----	Recommendation -----
Schedules relevant to 04 account subjects amounting to Rs. 95,391,801 had not been submitted to audit.	Informed that schedules of miscellaneous advances were submitted.	There are no schedules as mentioned in the answer, and the relevant schedules should be submitted to verify the account balances.

## 1.7 Non Compliances

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

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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) Paragraph 7.4 (iv) of Circular No. 01/2010 of the Sabaragamuwa Local Government Reforms Circular Guidelines	During the year under review, sitting allowances of Rs.990,000 had been paid to 27 members on 70 occasions when they did not attend the Sabha while taking leave due to non-medical reasons.	Informed that the leave has been legally approved on every occasion when the Hon. Members were not present in the Sabha and the action has been taken as per the Gazette Notification No. 1398 / 18 dated 08 June 2005.	Should act in accordance with the Circular.
(b) Schedule No.07 of Pay As You Earn tax under the employment income of the Inland Revenue Act No. 24 of 2017	Even though Pay As You Earn tax should be charged at 10 per cent when the income earned under the secondary employment is less than Rs.50,000, and 20 per cent for any value exceeding Rs.50,000, Pay As You Earn tax amounting to Rs. 476,723 on the allowances paid to 11 members of the Pradeshiya Sabha from April 2018 to November 2019, had not been charged.	The Hon. Members were informed to give a written reply and as written reply has not been received from the Hon. Members so far, the money has not been deducted from their salaries without their consent and action will be taken to deduct from their salaries in future.	Should act in accordance with the Inland Revenue Act.

## 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.31,999,942 as compared with the excess of revenue over recurrent expenditure amounted to Rs.27,392,493 in the preceding year.

## 2.2 Revenue Administration

### Performance in Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	Rates and Taxes		
(i)	The outstanding rates balance was amounted to Rs.3,344,300 at the end of the year under review. When comparing this with the supporting documents, a sum of Rs. 1,285,241 had been understated. Further, according to the village expansion assessment of the year 2020, a balance of Rs.71,786 outstanding for a period of 10 to 26 years from 42 rates units on the left part of Thulhiriya on Alawwa Road was also in that amount.	Informed that this deficit has being continued to occur and that rates are being charged through a new computer software at present and this should be investigated in the future and action has been taken to implement a new program to recover the balance of Rs.71,786.	Action should be taken to recover the outstanding rates and to compare the balances stated in the financial statements with the relevant supporting documents.
(ii)	The receivable balance of outstanding acreage tax as at the end of the year under review was amounted to Rs.222,619. Due to the failure to conduct a survey and identify taxable lands and amend the documents, there were outstanding acreage tax arrears for a period of 10 to 28 years. Further, a difference of Rs. 50,640 was prevailed when comparing the balance as per the financial statements with the supporting documents.	Informed that verification regarding acreage tax has been completed by now and based on the information obtained from it, balances have been updated and a sum of Rs.56,780 had been collected in the year 2021 up to now.	Action should be taken to recover outstanding acreage tax and to update the documents.
(iii)	The water bill outstanding at the end of the year under review was amounted to Rs.171,419 and the accurate balance had not been recognized by updating the documents properly.	Informed that there was a continuous discrepancy between the monthly billing and the estimated amount in the documents and that the action will be taken to check the documents, write off and correct expeditiously.	Arrangements should be made to collect arrears and update the documents properly.
(b)	Rent		
	The outstanding shop rentals receivable at the end of the year under review was amounted to Rs.469,910 and the accurate balance and time had not been recognized by updating the documents properly.	There was a difference in the balances and informed that action would be taken to write off the difference.	Action should be taken to recover outstanding rentals and to update the age analysis.

(c) Trade licenses  
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Estimated revenue amounting to Rs.56,000 had been lost due to non-collection of trade license fees from business institutions in 56 trade shops owned by the Sabha.	Informed that observations were accepted and action would be taken to rectify.	Action should be taken to recover the fees that should be recovered.
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**3. Operational Review**  
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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 Management Inefficiencies**  
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Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The value of debtors' balances receivable at the end of the year under review was amounted to Rs.11,271,282. The actions taken to recover these balances were not observed.	Informed that action would be taken to correct the balances in the accounts receivable and submit accurate age analysis.	Action should be taken to recover the balances receivable without any delay.
(b) Seven account balances with a total value of Rs.3,178,871 have been inactive for a long time and appropriate action had not been taken in this regard.	Informed that action will be taken to find out and take appropriate action.	Appropriate action should be taken regarding inactive accounts.

**3.2 Procurement Management**  
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Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) When purchasing equipment for the new office building, furniture valued at Rs.1,937,360 had been purchased from an institution outside the registered suppliers in contrary to the Provincial Treasury Circular No. 2/2019 dated 14 March 2019. Further, it was also observed that the specifications of the relevant goods had not been stated when calling bids in accordance with the 5.6 of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka, and the purchases had been made according to the report of the Procurement Committee before receiving the report of the Technical Evaluation Committee.	Due to the dilapidated roof of the old office and due to the rainy weather conditions prevailing, it had been done under the approval for calling bids locally due to the urgent requirement of moving to the new office and specifications had not been called before this. Action will be taken to act according to the given instructions in future purchases.	Purchasing should be done in accordance with the Procurement Guidelines.

- (b) The bids had been called without the proposed plan and specifications for the wall cupboards of the new building. Even though the last date for submission of bids was 17 December 2019, bids of 02 institutions submitted after the closing date had been considered as received on the closing date and date seal had been placed. Accordingly, the Procurement Committee had acted against the objectives and provisions of the Procurement Guidelines by selecting the supplier on the basis of 02 bids not received and the bid received and paying a sum of Rs.1,850,000.
- Informed that due to the bad weather conditions, in order to move to the new Pradeshia Sabha office building immediately and for the security of the office files, it was done urgently and therefore deficiencies shown were accepted and the Subject Officer was instructed to act properly in the future.
- Purchasing should be done in accordance with the objectives and provisions of the Procurement Guidelines.
- (c) The request for a curtain for the side wall near the entrance to the new office building of the Sabha was received on 13 June 2020, and calling bids for that was made on 29 May 2020, prior to the request. Further, the approval for this was received on 15 June 2020 and the bids opening was done on 16 June 2020 and the recommendations of the Procurement Committee were obtained on the same day. Thus, this activity had been done without any transparency and in contrary to the provisions of the Procurement Guidelines and a sum of Rs.250,800 had been paid for this on 13 August 2020.
- Even though requests were made from each division from time to time until the requirements of the officers were met, it was informed that this was an activity done subject to the approval of the Maha Sabha prior to the pointed out request.
- Purchasing should be done in accordance with the provisions of the Procurement Guidelines.
- (d) Entering into agreements before approving the building plan for the construction of stalls at Warakapola fair land, entering into agreements before passing stage ii of estimate, failure to prepare the total cost estimate as per Section 4.3 of the Procurement Guidelines, 02 separate estimates had been prepared for a total value of Rs.3,867,196 and the contract had been awarded to the same firm in contrary to the guidelines 3.9.4 and the Circular No. FC/3/3/2013 dated 26 July 2013 of the Finance Commission and as a result, non-compliance with Section 3.8 of the Procurement Manual were observed.
- Informed that the agreements have been entered into based on the recommendation of the Technical Officer and estimates have been prepared and contractions are being carried out according to the receipt of revenue throughout the year.
- Action should be taken in accordance with the Procurement Guidelines.