

Eheliyagoda Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Eheliyagoda 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 including 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 Sub-section 172 (1) of the Pradesiya 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 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 accompanying financial statements give a true and fair view of the financial position of the Eheliyagoda 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 based 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 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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism 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 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 Sabhas 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 are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No 19 of 2018.

- (b) 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**

1.6.1 **Accounting Deficiencies**

Audit Observation	Comments of the Sabha	Recommendation
(a) The expenditure totalling Rs.18,122,337 incurred for the improvements of land and buildings and equipment in the year under review had not been capitalized.	It has been informed that, action will be taken to check the relevant documents and to rectify in the accounts of the year 2021.	All capital assets relating to the year should be capitalized.
(b) The balances of the Local Loans Development Fund loan account, operational expenditure and the capital expenditure had been overstated by Rs. 60,806, Rs. 11,340 and Rs. 49,466 respectively.	It has been informed that, all rectifications will be done in preparing final accounts of the year 2021.	Payment of loan instalments and payment of interests should be correctly accounted for.
(c) The accrued expenditure of Rs. 115,603 relating to the year under review had not been brought to account and the expenditure of Rs. 111,425 relating to the ensuing year had been accrued for the year under review.	It has been informed that, the accrued amount could not be provided for creditors due to a failure and that amount had been included in the accumulated fund and the registers had been corrected. The error in accounting of expenses for the next year as accrued expenses will be rectified and accounted for.	The expenditure relating to the year should be correctly identified and accounted for.
(d) The total creditors amount of Rs. 9,774,366 for 04 Provincial Council works of which agreed value totaling Rs. 9,774,366 had been shown as accrued, and as such current assets, current liabilities, capital revenue and capital expenditure had been overstated by Rs. 8,465,581.	It has been informed that, all errors will be rectified in preparing final accounts for the year 2021.	The revenue, expenditure, assets and liabilities should be correctly identified and accounted for.

1.6.2 Unreconciled Control Accounts or Reports

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
A difference of Rs.15,144,320 was observed between the balances shown in the financial statements as at 31 December of the year under review relating to 06 items of accounts and the balances shown in the subsidiary registers.	It has been informed that, action will be taken to check differences and to rectify.	The amounts shown in financial statements should be reconciled with the subsidiary registers.

1.6.3 Lack of Written Evidence for Audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
The information required for audit relating to 04 items of accounts totalling Rs.1,968,712 had not been furnished.	It has been informed that, these errors were made due to the payments had been made by another deposit and the adjustments will be made and rectified the accounts.	The evidence should be shown.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha, for the year ended 31 December 2020 amounted to Rs. 36,237,276 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.15,711,216.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a.) Rates and Taxes		
i. Action had not been taken to recover the balance of arrears of rates amounting to Rs. 19,944,474 as at the end of the year under review.	It has been informed that, even though the revenue inspectors had been informed to recover arrears of rates and the targets to collect revenue and the arrears lists had been given to	Prompt action should be taken to recover the revenue receivable to the Sabha

them, the difficulties had existed to collect revenue due to Covid epidemic situation and also action could not be taken as per the Act.

- ii. Action had not been taken to recover the balance of the arrears of acreage tax amounting to Rs. 229,675 as at the end of the year under review.

It has been informed that, the information had been requested from the office of the Agrarian Services and the office of the Divisional Secretary through the letter, dated 16 October 2020 informing them to check the accuracy of the particulars in respect of the relevant acreage tax lands.

Action should be taken to carry out a verification on acreage tax and to recover the arrears.

(b.) License Fees

A survey had not been carried out during the year under review to identify the institutions who should obtain the licences in terms of the National Environmental Act No: 47 of 1980 as amended by the Acts No: 56 of 1988 and 53 of 2000 and the Regulations imposed under it. Accordingly, a sum of Rs. 375,967 out of the estimated revenue amounting to Rs. 1,203,040 had not been recovered. Further, a periodic evaluation in respect of the effect caused to the environment from the businesses had not been carried out and as such the responsibility of the Sabha in respect of the environmental protection of the authoritative area of Sabha had not been executed adequately.

It has been informed that, a program had been prepared to carry out a survey with the limiting factors such as the authoritative limit of the Pradeshiya Sabha is 139 Kilo meters, minimise the time that can be devoted to this with other duties assigned to one officer but that work also had been missed due to the Covid situation.

Action should be taken according to the existing environmental laws.

(c.) Court Fines and Stamp Fees

The stamp fees receivable as at the end of the year under review from the Chief Secretary of the Provincial Council and other authorities amounted to Rs.17,021,579 and the court fines identified as receivable relating to the first half of the years 2017 and 2018 amounted to Rs. 4,604,168. The court fines receivable from Ratnapura courts from the year 2016 and receivable from the Avissawella courts from July 2018 had not been identified even by March 2021.

It has been informed that, due to the current Covid situation it was unable to go to the courts to obtain the information required to recover the court fines mentioned for the year 2017 and 2018.

Action should be taken to recover the revenue receivable to the Sabha periodically

3. Operating Review

The matters observed in respect to the activities that should be carried out by the Sabha, such as regularise and control over the matters of public health, public utility services and thoroughfares and the comfort, facilities and will being of the people under Section 3 of the Pradeshiya Sabha Act are given below.

3.1 Management Inefficiencies

Audit Observation

Comment of the Sabha

Recommendation

The Sabha had failed to identify and settle the debit balances totalling Rs. 8,191,137 existed in 03 deposit accounts and to furnish the required written evidence to audit to verify those balances.

It has been informed that, action will be taken to rectify in future.

The correct registers, information relating to the accounting balances should be furnished.

3.2 Operating Inefficiencies

Audit Observation

Comment of the Sabha

Recommendation

(a) As per the court decision in respect of the arrears of lease rent receivable in the year 2012 for the Eheliyagoda weekly fair, the arrears should be recovered and completed by April 2016. Nevertheless, a sum of Rs. 180,000 had to be recovered further. But the Sabha had failed to report for the courts in respect of non-taking action according to the court order and to recover arrears even by the end of the year under review.

It has been informed that, action will be taken in the future to carry out required legal actions to recover this money.

Action should be taken to recover the revenue receivable to the Sabha timely in terms of the courts decision.

(b) Even though, the key money receivable for 10 trade stalls in the ground floor of the multi-purpose building which leased out in July 2016 should be recovered and completed by August 2018, a sum of Rs.758,822 receivable for 06 trade stalls had not been recovered even by December 2020. Further, a loss of Rs.426,300 had been incurred to the Sabha fund relating to 06 trade stalls, which had not paid key money due to recovering the monthly rental which

It has been informed that, the lease holders had been informed through the letters to recover key money and allowed to pay money as instalments and action will be taken to recover monthly rental after recovering the advances.

Action should be taken to recover revenue receivable timely.

should be recovered after the key money payment, instead of the monthly rental to be charged until the key money payment is completed. Further, in terms of the paragraph 2.5 of the Circular No: 2009/01 dated 09 March 2009 of the Commissioner of Local Government; the possession of the trade stall should be handed over after the entire key money payment is completed. Nevertheless the possession of the above trade stalls had been handed over on 08 August 2018.

3.3 Transactions of Contentious Nature

Audit Observation

Under the implementation of the development projects in the Eheliyagoda Town, when removing the parts of the buildings situated on the border of the road of the city, on the verbal agreement made by the Pradeshiya Sabha to bear the transportation cost for transport the debris to the required locations and later reimbursed from the Urban Development Authority, a sum of Rs. 900,000 had been paid from the Sabha funds in the year 2013 as advances. Nevertheless, the Sabha had failed to reimburse the said amount even by the end of the year under review. Further, due to the inability to settle the liability committed in respect of the balance amount Rs. 4,390,000 which should be paid to the contractor, the contractor had filed a lawsuit seeking the compensation of Rs. 2,634,000 as the loss incurred in addition to the balance amount. A sum of Rs. 17,000 had been incurred from Sabha funds for the judicial proceedings from the year 2019 to 2021.

Comment of the Sabha

It has been informed that, the respective actions had been taken by the ex-Chairman informing the Sabha without being signed the agreement because the Eheliyagoda city Development project should be done very quickly and the agreements had been signed after receiving the bills and a law suit thereon is hearing in the courts.

Recommendation

The project should be executed by agreement properly before implemented.

3.4 Assets Management

Audit Observation

The Gatahaththamulti- purpose building which completed the work in December 2012 by incurring Rs. 39,281,227 under Asian Development Bank loan grant had remained idle up to the year 2018 and the 1st floor and ground floor of the building had been leased out for a monthly rental of Rs. 100,000 on 31 December 2018 for a period of one year. However the lease holder had pointed out the various deficiencies in the building and requested to repair those and defrauded the payment of rentals. Despite that all the repairs had been completed by incurring a sum of Rs. 2,331,013 from the Sabha funds, action had not been taken to deploy the building to intended activity and to pay rentals as per the agreement. An approval had been made under the urgent proposals of the General meeting held on 08 October 2019 to recover the rentals from the date of the work started by the lease holder, but the revenue of rentals could not be recovered by the Sabha even by December 2020 and the revenue deprived by the Sabha amounted to Rs. 2,400,000.

Comment of the Sabha

It has been informed that, the written notices had been made from time to time to the lease holder to pay rentals and the building had been taken over to the Sabha with the equipment owned by the lease holder and the requests had been made to the Office of the Director of Health Services to obtain team of officers to assess the health equipment available in the building for recovery of the money defaulted by the lease holder and the lease holder also had been informed thereon, and already a request had been made to the Department of Valuation to obtain a valuation report required to re-tender of this building again.

Recommendation

The assets possessed by the Sabha should be utilized effectively and the arrears of rentals should be recovered.

4. Accountability and Good Governance

4.1 Environmental Problems

Audit Observation

A cost of Rs.16,041,867 and 21 employees of the staff and 04 vehicles had been utilised to dispose about 1500 metric tons of solid waste within the authoritative area of the Sabha in the year under review. Nevertheless, the pits had been excavated in the land and the waste disposed in to them and closed the pits without following a proper environmental friendly methodology.

Comments of the Sabha

It has been informed that, the waste had been collected on the discussion of the use of organic fertilizer in the country and action will be taken to prepare a solid waste management plan to improve the production of fertilizer from the waste.

Recommendation

Proper waste management plan should be prepared in compliance with the National Policies.