

## **Gampaha 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 Gampaha Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement, statement of changes in net assets/ equity, cash flow statement 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 provisions of the National audit act No.19 of 2018 and the 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 financial statements give a true and fair view of the financial position of the Gampaha Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities .

#### **1.2. Basis for Qualified Opinion**

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I express qualified opinion 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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, 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 include 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 National Audit Act, No. 19 of 2018.
- (b) The following recommendations which I made on financial statements for the preceding year had not been implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.  
1.4.2(b), 1.4.2 (c)

## 1.6 Audit Observations in connection the Preparation of Financial statements

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### 1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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| Reference to relevant Standard | Non- compliance   | Comments of the Sabha  | Recommendation  |
|--------------------------------|---|--|---|
| 3.9                            | If there are some quantitative differences between the actual values of the actual, budgeted and the values of pre-comparison periods and the reasons for them should be disclosed in a way that makes it easier to compare budgeted information in financial statements, failure to disclose the reasons for them. | Since the preparation of financial statements according to the Public Sector Accounting Standard 2017 was first done from the year 2020 instead of the accounting system for local government bodies that existed in previous years as per 3.9/3.15. Actions will be made to meet the requirements pointed out in the future audit on the further instructions given by the Local Government Department. | It should be disclosed in financial statements in accordance with Accounting Standards. |

## 1.6.2 Accounting Deficiencies

| Audit Observation  | Comments of the Sabha   | Recommendation  |
|--|---|---|
| (a) As a result of trade stall rent receivable amounting to Rs.2,359,730 as at 31 December 2020 was written off from the reserve and provision account without obtaining a proper approval, The trade stall rent receivable had been understated by that value.  | It is not possible to recover legally as instructed and arrangements have been made to transfer the identified trade stall rent, reserve and provision account.   | The revenue should be identified as standardized and formal approval should be obtained and action should be taken to adjust it to the reserve and provision account. |
| (b) As a result of the total of gully bowser income, garbage sales, administrative expenses incurred by the Sabha and revenue received for the transferring of trade stall No. 05 under the interim lease scheme for the year under review amounting to Rs.647,957 had been shown as deposits, the surplus for the year under review had been understated by that value. | Actions will be taken the gully bowser income, garbage sales and money relating to transfer sales stall No. 05 under the interim lease scheme to revenue in the year 2021. This issue will be discussed at a future meeting of the Audit and Management Committee on administrative expenditure and arrangements will be made to take proper actions. | Actions should be taken to identify it as income.   |
| (c) Instead of accounting for the difference between the cost of the Kosgahalanda land and the amount of compensation as income it has been credited to the land account, the land balance and surplus amounting to Rs.235,842 had been understated.   | This will be corrected from the final account 2021.   | Accounts should be accurately prepared.   |
| (d) The amount of Rs. 128,998,518 to be paid to the contractors for unfinished roads, culverts and bridges as at 31 December of the year under review had been debited to the assets account instead of debiting to the work-in-progress account.  | This will be corrected from the final account 2021.   | It should be identified and accounted for as work-in-progress.  |

### 1.6.3 Balances Receivable

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#### Audit Observation

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Actions had not been taken to recover the arrears of Rs.11,288,287 for 1-3 years and Rs.2,667,712 for 5-10 years remained within the balance receivable for development projects implemented under Decentralized and Provincial Councils as per the financial statements as at 31 December of the year under review amounting to Rs.116,479,164.

#### Comments of the Sabha

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Receivables for development projects implemented under Decentralized and Provincial Councils have been mentioned under the balances receivable. This money has been documented on the manner of receipts and only the balances confirming that non-receipt have been removed from the accounts. The other balances will be brought forward until the money is reimbursed.

#### Recommendation

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Actions should be taken to recover the balances receivable.

## 2.1 Financial Results

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The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs.52,803,165 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 9,956,410.

## 2.2 Revenue Administration

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### 2.2.1 Rates and Taxes

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#### Audit Observation

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A difference of Rs.61,765 in between the financial statements and corresponding reports of rates and taxes was observed and actions had not been taken to recover the balance of Rs.5,887,319 for more than 10 years in Galahitiyawa sub-office which was included in the balance of rates receivable amounting to Rs.38,780,648.

#### Comments of the Sabha

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Whilst a programme of door-to-door collection of arrears of rates is being prepared practically and implemented by preparing a separate document deploying group of the officers according to the addresses listed in that document to recover the arrears of rates for more than 10 years, the re-emergence of the Covid epidemic from October 2020 to the end of December, further the collection of relevant arrears of rates has obstructed.

#### Recommendation

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The procedures of collection of arrears of rates need to be improved.

## 2.2.2 Trade Stall Rent

### Audit Observation

There were the balance of Rs.223,580 in between 3-5 years, the balance of Rs.594,234 for 5-10 years, the balance of Rs.1,446,235 over 10 years according to the age analysis of the arrears of income and legal actions had not been taken upon for the recovery of arrears due from 05 sealed stalls and 06 unsealed stalls belonging to Henarathgoda sub-office amounting to Rs.734,867 and the fine of Rs.75,877.

### Comments of the Sabha

Because there are a number of business locations where tenants have not been found and some tenants have died in businesses that have not paid rent for more than 10 years as per the percentage of arrears of trade stall rent, it has been submitted to the Governor, Western Province by the Commissioner of Local Government to identify those places and remove them from the relevant billing documents.

### Recommendation

The recovery of trade stall rent needs to be carried out in an updated manner.

## 2.2.3 Other Income

### Audit Observation

Even though the business tax has been levied on 40 transmission towers for the year 2019, the taxes had been levied only from 29 towers from the year 2020.

### Comments of the Sabha

The business tax has not been paid for the 07 telephone towers belonging to Henarathgoda sub-office belonging to Pradeshiya Sabha and 4 towers belonging to Galahitiyawa sub-office and the companies that own the telephone towers have already been informed in writing about the situation and action will be taken to recover it immediately.

### Recommendation

It should be charged promptly.

## 3. Operating Review

### 3.1 Performance

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

### 3.1.1 Management Inefficiencies

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#### **Audit Observation**

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As the old post office premises in Ganemulla had been leased out to the Talent Technology and Management Institute without signing any agreement, it had not been able to act legally to recover the rent and penalty amount of Rs.1,446,235 receivable to the Sabha from 31 December 2010 to 31 December of the year under review.

#### **Comments of the Sabha**

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As a result of the lease of the relevant place without signing an agreement at that time, it could not be able to act legally. Nevertheless, the relevant officers have taken actions to recover a sum of Rs.102,564 from the arrears of lease.

#### **Recommendation**

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Arrangements should be made to recover the arrears and signing an agreement is a mandatory in lease.