

## **Ja-ela 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 Ja-ela 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 Sub-section 172 (1) of the Pradeshiya 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 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 Ja-ela 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

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.

1.2.2 (e), (h), 1.2.3, 1.2.4, 1.2.6, 1.2.7(a), (b)(ii), (c), 2.2.2 and 3.4.1

## 1.6 Audit Observations on the Preparation of Financial Statements

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

Non- Compliance with reference to the relevant Standard	Comment of the Sabha	Recommendation
The Assets of the Sabha had not been revalued under standard No.18.7 and the letter No.LGD/10A/4/20.8/2019 dated 01 February 2021 by the Commissioner of Local Government.	Inform that the actions would be taken to revalue the Assets owned by the Pradeshiya Sabha in the future.	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

### 1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Even though the amount of net assets/equity left by deducting the amount spent during the year by the amount received during the year as Capital Donations of Rs.103,452,469 should declare under the excess as unidentified grant, it had been stated under the state transfers for the non-recurrent expenditure therefore the excess had been overstated by that amount.	Action will be taken to present in the accounts from the year 2021.	The accounts should be accurately made.

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| (b) | The Capital expenditure during the year under review of Rs.210,492,335 had been stated in the detailed comprehensive income statement as expenditure for the year to adjust it to the excess or to the shortage therefore the excess for the year and the work in progress had been understated by that amount.                                  | Action will be taken to present in the accounts from the year 2021. | The accounts should be accurately made. |
| (c) | A balance of Rs.1,323,657 cash in hand stated in the bank reconciliation for December of the year under review had not been stated under note No.11 of the comprising statement of assets and liabilities as cash in hand.   | Action will be taken to present in the accounts from the year 2021. | The accounts should be accurately made. |
| (d) | The construction of the Office and Library Building and the construction of the Dandugama Sub Office and Public Library building had been accounted as an expenditure of the year and made allocations for the creditors totalled Rs.16,000,000 respectively Rs.8,000,000 and Rs.8,000,000 but agreements had not been made as at 06 April 2021. | Inform that the constructions would be commenced and finished soon. | The accounts should be accurately made. |
| (e) | The Creditors on stock as at 31 December 2020 had been equalled to the Creditors on stock for the year 2020 but an amount of Rs.1,133,025 stock that had been ordered in the year 2019 but not received incurred in the balance therefore the Creditors on stock had been understated by that amount.  | The register for the creditors on stock had being updated.          | Accounts should be prepared accurately. |

### 1.6.3 Unreconciled Control Accounts

#### Audit Observation

There was a difference of Rs.323,953,943 relevant for 07 item of accounts, between the balances as per the financial statements and the balances as per the corresponding reports.

#### Comment of the Sabha

Actions would be taken to make it correct in the future.

#### Recommendation

Actions should be taken to reconcile the balances and make them correct.

#### 1.6.4 **Suspense Account**

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##### **Audit Observation**

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The Rs.236,425 balance of the suspense account descending from the year 1992 had been recommended by the Accounting Advisor to set off by the Accumulated Fund Account and presented to the Commissioner of Local Government to obtain the approval.

##### **Comment of the Sabha**

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The report from the Accounting advisor had been presented to the Commissioner of Local Government and actions would be taken to correct after it had been received.

##### **Recommendation**

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Actions should be taken as soon as possible to correct.

#### 1.7 **Non-Compliances**

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##### 1.7.1 **Non Compliances with the Rules, Regulations and Management Decisions**

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<b>Ref. to the rules</b>	<b>Non- Compliance</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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The Financial Regulations of the Democratic Socialist Republic of Sri Lanka Rule No. 571(3)	Actions had not been taken to write off miscellaneous deposits aggregated to Rs.27,962,629 including deposits deposited 3 to 5 years of Rs.11,056,747 and deposited over 5 years of Rs.16,905,882.	Inform that actions would be taken to make it correct.	Actions should be taken according to the Financial Regulations.

#### 2. **Financial Review**

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##### 2.1 **Financial Results**

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According to the financial statements presented excess of the Sabha amounted to Rs.70,783,624 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.137,137,461.

## 2.2 Revenue Administration

### 2.2.1 Performance in Collecting Revenue

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The arrears in rent receivables as at 01 January of Rs.8,782,000 had been increased to Rs.16,388,00 as at 31 December 2021 and because the rent recovered out of that arrears had been rs.2,629,669 therefore the collection of the arrears had been in a weak status.	Inform that the actions are being taken to recover the arrears amount.	Actions should be taken to recover the arrears.

## 3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

### 3.1 Identified Losses

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The Court Case No.2450/SPL had been given a bias decision as to the favour of the Plaintiff because of no representation of the Sabha. Because of not taking actions to obtain a relief the fare ordered by the Court to pay in the year 2003 of Rs.500,000 and the monthly loss fee of Rs.10,000 had been increased to an payable fee amount of Rs.4,168,015 at the end of the year 2020 and it had been all paid off by 03 instalments in months of May and August 2021 therefore no any inspection had been carried out to find out the liable parties for the loss occurred on the Sabha.	An amount of Rs.10,000 had to be paid at a time for the time relevant when the Appeal Case had been examined therefore inform that the fee had been increased.	Actions should be taken to recover the loss by the parties liable.

### 3.2 Procurement

#### 3.2.1 Goods and Services

##### Audit Observation

A loss of rs.33,600 had been occurred when purchasing 800, 125W Mercury(Osrum) Electric Bulbs for the year 2018 by the seller who presented the least price, because bulbs had been purchased by the Work Superintendent for a higher price than the price informed and again the bids had been called because the above bulbs were not up to the standard quality and 2750 Bulbs had been purchased for a new higher price from the same seller therefore a loss of Rs.618,750 had been occurred. When purchasing electric appliances in the year 2019 Sabha had purchased 90 sets including Street Cobra LED Bulbs, Pipe and the handle and 10035 15 W LED Bulbs without a Technical Evaluation Committee Decision for a higher price even though lower price quotations were available therefore the total loss occurred from the 2 items had been Rs.71,385. And also when purchasing 1/044 wire rolls a loss of rs.11,985 had been occurred because of not purchasing under the decision of the Technical Evaluation Committee and all together Sabha had violated the regulation No.1.2.1 (a) of the State Procurement Guidelines.

##### Comment of the Sabha

The purchasing had been done under the recommendation of the Work Superintendent and the Approval of the Chairman because it was an issue that should be solved urgently.

##### Recommendation

The Purchasing should be done under the decisions of the Procurement Committee and the Technical Evaluation Committee.

#### 3.2.2 Deficiencies in Contract Administration

##### Audit Observation

(a) Payments had been done respectively Rs.3,866,537 and Rs.2,228,787 for the Development of the phase I of the Samagi 1<sup>st</sup> lane t Kanuwana. The Procurement Procedure had not been carried out according to the 3.2.1 and 2.4.1 of the Procurement Guidelines calling Bids nationally and implementing Procurement Committee and Technical Evaluation Committee. The Cheque dated 08 March

##### Comment of the Sabha

A Procurement Committee could not be appointed because the projects was an urgent one and our extractions revealed the lane was 9 inches.

##### Recommendation

Actions should be taken according to the Procurement Guidelines of Sri Lanka and the Project should be completed in the given standards.

2020 for Bid Security for this had been received on 18 May 2020 after the final day paid for the Contractor on 27 March 2020. The payments had been done for laying 0.225 metre height Red Mix Concrete on 235 sq. metres but it revealed that it was average 0.191 metres height by the Audit inspection held on 12 June 2020 through concrete samples extracted from 04 cross-sections .According on the above calculations the concrete laid had been 200.28 sq. metres therefore Rs.565,148 had been over paid for 33.72 sq. metres. the concrete had been laid on the lane of the phase II for 35 metres long during the Phase I therefore Rs.949,539 had been over paid at the Phase II.

(b) Agreements had been made on 08 March with an Association to complete within one month to renovate the fence in front of the Kandana Main Office for a value of Rs.977,160. The physical investigation on 05 October 2020 revealed that only 96 feet square iron bars had been used for 9 feet 10 inches fence even though according to the work item No.02 it had been calculated the cost for 134 feet square iron bars Rs.2,875 each for 9 feet 10 inches long fence. therefore the whole cost for a foot would be Rs.2,258 and rs.122,412 had been overpaid. Rs.84,944 out of it had been recovered after the Audit Query but the rest of the amount had not been collected. The total false payment on iron work and the Labour for the construction of the fence had been Rs.142,754 and the Sabha had been made false over estimates and payments had been made according to them.

Inform that the actions had been taken to recover the actual amount of overpaid rs.84,235.

The payments should not be made on the false over estimates.