

## **Wattala 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 Wattala Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of 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 Sabhas Act, No. 15 of 1987. 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 Wattala 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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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**

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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 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)

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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 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 Sabha 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 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 financial statements of the Pradeshiya Sabha are in consistence with that of the previous year 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

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) 35 deposits of Rs.1,621,492 in the Common Deposits Register of two types had been missed in the Final Account.	Agreed. This error had been occurred when the final account was being printed and later it had been corrected.	Actions should be taken to include all the general deposits in the Final Account.
(b) A deposit of Rs.41,936 had been taken to the final account as Rs.419,363 as at 31 December 2020 therefore it had been overstated by Rs.377,427.	Agreed. When entering the register it had been included one number more and later it had been corrected.	Actions should be taken to enter the correct values to the final accounts.
(c) 15 deposits of Rs.414,463 relevant to two types had been entered in the final account that had not been included in the Deposits Register.	Agreed. It had been mistaken by the new subject officer when updating the register and later it had been corrected.	Actions should be taken to take all the values correctly to the final accounts.
(d) 05 retention for contracts valued Rs.505,204 redeemed on the last day of the year under review had been taken to the final accounts.	Agreed. It had been mistaken by the new subject officer when updating the register and later it had been corrected.	A deposits register should be prepared including all the deposits and take them in to the final accounts.
(e) The loan instalments of Rs.10,080,000 for the two Compactor Machines had not been included in the recoverable utility services account therefore the excess had been overstated by that value.	Agreed. It had been corrected by a Journal Entry in the year 2021.	Actions should be taken to adjust it to the Accumulated Fund Account.
(f) State transfers for non-recurrent expenditure of Rs.78,408,018 had not been adjusted according to the revenue recognition criteria of the Standard No.	Agreed. Actions would be taken to make the final accounts according to the Standard No. 9.9 in Sri	Actions should be taken to deduct the detailed revenue according to the Standard.

9.9 in Sri Lanka Accounting Standards for the Local Authorities 2017. Lanka Accounting Standards for the Local Authorities 2017 form the year 2021.

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| (g) | Receivable fixed deposit interest for the year 2019 of Rs.718,356 had been erroneously credited to the deposits account and to correct it had been debited to the reserves and allocations except for debiting the deposits account.   | Agreed. Actions would be taken to correct when making the final accounts for the year 2021.  | Accounts should be accurately adjusted.  |
| (h) | The balance of the Reserves and Allocations Account amounted to Rs.45,504,767 had not been stated under the equity on the Statement of Assets and Liabilities.   | Agreed. Actions would be taken to correct when making the final accounts for the year 2021.  | Actions should be taken to declare it under the Equity on the Statement of Assets and Liabilities. |
| (i) | The Lands and Buildings had not been revalued for the year under review and the balance of the Lands and Buildings Account as at 31 December of the preceding year of Rs.248,415,167 had been adjusted on the 01 January of the year under review as Lands and Buildings to the Reserves and Allocations Account less Rs.200,000. The other supplementary documents also under stated. | Agreed. Actions would be taken to revalue the Lands and Buildings in the year 2021 and the Rs.200,000 balance value missed erroneously by the supplementary documents would be confirmed and actions would be taken to correct it through a Journal Entry. | The Assets should be revalued and adjusted in the Accounts.  |
| (j) | The balance of the Contribution to the Capital by the revenue Account of Rs.389,015,608 and the balance of the Contribution to the Capital by Donations of Rs.45,391,670 had been adjusted to the Accumulated Fund Account without adjusting to the Reserves and Allocations Account.  | Agreed. Actions would be taken to make this correct through a Journal Entry in the year 2021.  | Actions should be taken to recognize the Unrecognized Deposits.                                    |

**1.6.2 Unreconciled Control Accounts**

**Audit Observation**

There was a difference of Rs.1,376,998 relevant for 04 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 investigate this difference. Agreed. Actions would be taken to correct this through a Journal Entry in the year 2021.

**Recommendation**

Actions should be taken to reconcile the balances between the financial Statements and the corresponding reports and maintain them.

### 1.6.3 Lack of Documentary Evidence for Audit

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Audit Observation	Comment of the Sabha	Recommendation
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02 balances of accounts accumulated to Rs.751,883 could not be satisfactorily vouched because of not presenting the necessary information to the audit.	Agreed. The Documents regarding about those accounts could not be found. Further consideration would be given to this matter.	Actions would be taken to present the evidence.

### 1.7 Non-Compliances

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

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Ref. to the rules	Non- Compliance	Comment of the Sabha	Recommendation
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Section 219 of the Pradeshiya Sabha Act No.15 of 1987	The Reception Hall had been leased out to a Wife of a member of the Sabha even though none of the Members of the Sabha or none of the employees of the Sabha could not be connected to any agreement or work with any financial concern directly or indirectly with the Sabha and the receivable balance of the lease rent had been Rs.974,800 since 30 May 2009.	Agreed.	Actions should be taken to recover the receivable lease rent.

### 1.8 Transactions not Confirmed by Necessary Authority

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Audit Observation	Comment of the Sabha	Recommendation
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Fixed deposits of Rs.80 million in the year 2018, 60 million in the year 2020 and 20 million in the year 2021 had been converted to cash violating the circular No. LGD/04/2016 dated 26 April 2016 by the Assistant Commissioner of Local Authorities and the main objective of converting the fixed deposits into cash of the construction of the Market Complex and the Crematorium had not been accomplished and the money had been spent on general administrative expense.	Agreed. Actions would be taken in the future according to the circular No. LGD/04/2016 dated 26 April 2016 by the Assistant Commissioner of Local Authorities.	Actions would be taken to obtain the approval.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.257,160,854 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.22,483,963.

### 2.2 Revenue Administration

#### 2.2.1 Rates and Taxes

Audit Observation	Comment of the Sabha	Recommendation
A difference had been discovered of Rs.4,337,332 between the balance value declared on the financial statements and the corresponding reports of rates and taxes. In the balance of rates could not be able to recover included a balance of Rs.18,930,318 for 3 to 5 years and a balance of Rs.19,040,989 for 5 to 10 years and a balance of Rs.14,546,536 for over 10 years and even though it included from Welisara, Pamunugama and Hendala Sub Offices respectively balance of Rs.6,279,966 for 1587 units and balance of Rs.1,966,759 for 986 units and balance of Rs.18,275,500 for 4,144 units in the category of receivable over 05 years' time, but no any actions had been taken to forbid the property. Also no evidence had been presented as to implementing a regular program to identify new rates units and increasing the collection of rates and it had been over 10 years of the valuation of real estate therefore rates had been failed to recover from 58003 property on the new rates assessment.	The amount of rates for all the residents in State Lands that had been obtained the approval by the Minister in Charge of the Subject to write off had not been completely removed from the Computer Program because of the investigation carried out on the collection of rates receivable for the year 2016. Actions would be taken to correct this error after receiving the decision of the above investigation. Details for a new Rates Assessment had been sent to the Department of Valuation. Even though the details should be send to the Department of Valuation in the year 2020 itself, it had been temporarily stopped because of the Covid-19 Pandemic. The Registers regarding the new Rates Assessment had been delivered to the Department of Valuation. Consideration on forbidding the property would be given in the future.	Actions should be taken to recover the rates in arrears, recognize new rates units, recover rates by forbidding property, and maintain accounts by reconciling the balances between the financial statements and the final accounts.

## 2.2.2 Long Term tax property

### Audit Observation

Actions had not been taken to recover the tax from the property that had been given on lease for the long term at the end of the year under review. An Assessment had been carried out only on 49 property as at 14 December 2016 even though 166 Property had been owned by the Sabha. Also a new Assessment had not been carried out on those 49 stalls or the year 2020 and an Assessment report for the rest of the 117 property had not been forwarded to the Audit.

### Comment of the Sabha

Actions had been taken to recover an amount of Rs.1,108,460.89 as at 30 April 2021 out of the arrears as at 31 December 2020. A new assessment had been implemented on 31 Property and a new Market Complex are being built for 74 stalls therefore actions would be taken to make a new assessment as soon after it had been completed. Actions would be taken to make assessments all the rest of the property owned by the Sabha as soon as possible. The amount of Rs.5,297,637 receivable from the Hendala Market Complex for the year 2007 to 2017 had been requested the approval from the commissioner of Local Authorities to remove as an amount that could not be recovered. Approval had been requested by the Commissioner of Local Authorities to write off an amount of Rs.702,439 of rates because of closing down the stalls during the Covid-19 Pandemic

### Recommendation

Actions should be taken to make a new assessment and recover the rent in arrears.

## 3. Operating Review

### 3.1 Performance

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.

#### (a.) Solid Waste Management

##### Audit Observation

The Garbage Tax or Fees had not been imposed under the Gazette No.1560/06 dated 30 July 2008 the Gazette No.1534/18 dated 01 February 2008 of and the Gazette No.1713/11 dated 05 July 2011 even though 16 tons of Perishable Waste and 07 tons of Non-perishable Waste had been collected daily within the authority of the Sabha

##### Comment of the Sabha

Discussions had been carried out with more than 20 institutions for collecting a fee for the Waste in the future and as a commencement a monthly fee had been charged from the institution of Paradise, Kerawalapitiya from 01/06/2021.

##### Recommendation

Actions should be taken according to the circulars.

**(b.) Public Complaints**

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
35 Public Complaints like Unauthorized Constructions and Cutting Trees had been resolved out of 234 Complaints and actions had not been taken to resolve 199 Complaints.	Even though the Public Complaints had been given more attention most of the Complaints could not be taken to final solution because of the interference of other institutions other than our institute.	Actions should be taken to resolve Public Complaints.

**3.2 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
A land of 02 Acres and 24 Perches Land in Dikowita owned by the Sabha had been leased out to private institution on 01 September 2006 for 10 years to produce Bio Gas. But the agreement had been cancelled on 25 April 2011 without collecting the arrears amount of Rs.525,000 and given it to the Authority of Solid Waste Management for a monthly rent of Rs.25,000. The Arrears up to now had been Rs.2,925,000 and the total arrears had been Rs.3,450,000 with the prior arrears.	The details needed to answer this would be obtained by the Authority of solid Waste Management and forwarded in the future.	Actions should be taken to recover the arrears.

**3.3 Assets Management**

**3.3.1 Income that could be able to Earn but not earned**

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) Private Vehicle Park A building had been built of Rs.02 million at the place where Abattoir in Hendala placed of 02 Acres and 11 Perches in the year 2014 and now that place had been occupied as a place where Busses and Cars parked but no procedure had been implemented to earn an income from that premises. According to an Assessment carried out by the Department of Valuation on 04 March	Agreed. Actions are being taken to lease out the park to the Department of Transportation on the lease Assessment made by the Department of Valuation as at 04 March 2021.	Actions should be taken to lease out or rent out and earn income.



2021 the monthly rent for this place should be Rs.81,333. Therefore a considerable income had been lost for the Sabha because of the ignorance of the officers of the Sabha.

(b) Turn the Prithipura Beach into a Secured Beach

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Even though Ministry of Tourism Western Province had constructed several stalls, a lavatory system a water tank on a post and lamp posts around the premises within the Prithipura Beach in the year 2013 and made the environment even fascinating as to attract more tourists, it had been earned Rs.46,780 in the year 2013 by the premises and Rs.4,300 until the month of July 2014 but after the water tank collapse on the bathing place and stopped the water supply in July 2014 the income had been lost and actions had not been taken to renovate the place and earn income.

Agreed. Suitable actions would be taken after discussing the issue with the Ministry of Tourism Western Province.

Actions should be taken as to earn income from the assets.

**3.3.2 Alienation of Assets**

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**Audit Observation**

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The Pass Watta Land in Uswatakeyyawa of 11 Acre 02 Perches and 11 Roods donated as a deed of gift to the Wattala Pradeshiya Sabha by Rev. Dr. Nicholas Marks Fernando in the year 1988 valued as Rs.188,000 had been separated into nearly 57 pieces and alienated through deeds of gifts by the Chairman and the Secretary of the Sabha in the year 1991.

**Comment of the Sabha**

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Sabha is not available with sufficient details about this and actions would be taken to investigate this further.

**Recommendation**

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Actions should be taken to take over to the Sabha.