

## **Galenbindunuwewa Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Disclaimer of Opinion**

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The audit of the financial statements of the Galenbindunuwewa Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, including a summary of significant accounting policies, 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 Pradeshiya Sabhas 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.

I do not express an opinion on the accompanying financial statements of the Galenbindunuwewa Pradeshiya Sabha. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **1.2 Basis for Disclaimer of Opinion**

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My opinion is disclaimed 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..

#### **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 for Local Authorities, 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

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National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with 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 required by Section 6(i)(d)(iv) of the National Audit Act No. 19 of 2018.

## 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	Comment of the Sabha	Recommendation
(a) Due to making re-adjustments to the value of revalued 04 assets, fixed assets and accumulated fund had increased by Rs. 39,278,521.	Accepted.	Revalued assets should not be re-adjusted.
(b) Although the billing revenue relevant to 07 revenue items in the year under review was Rs.7,450,140, it had been accounted for as Rs.6,170,962, thus understating by Rs.1,279,178 in the statement of comprehensive income.	Accepted	Correct revenue should be brought to account.
(c) The discount of Rs. 64,142 given for assessments in the year under review had not been brought to account as an expense in the statement of comprehensive income.	Accepted	Discounts given for the assessments should be stated as expenditure.
(d) According to the assessment register, the deficit of assessment for the year under review was Rs.861,837, whereas it had been brought to account as Rs. 1,054,261 in the relevant ledger account. Accordingly, the outstanding assessments had been overstated by Rs.192,424 in the financial statements.	Accepted.	The correct value of the outstanding assessment should be brought to account.

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| (e) | According to the stall rent register, the billed stall rent revenue for the year under review was Rs. 915,620 and it had been understated by Rs. 906,620 in the relevant ledger account. As such, the stall rent revenue for the year under review and the receivable stall rent revenue had been understated.   | Accepted. | Correct stall rent value should be brought to account.                        |
| (f) | The trade license fee due on 31 December of the year under review amounting to Rs. 188,750 and the receivable business tax of Rs. 57,600 had not been mentioned in the financial statements.   | Accepted. | All the revenue receivable should be brought to account.                      |
| (g) | Although a sum of Rs.12,834,782 which was due to be paid to the industrial creditors for 17 projects implemented in the previous years had been paid in the year under review, it had not been credited to the relevant ledger accounts. As a result, the industrial creditors value to be paid as at 31 December of the year under review had been overstated by that amount.         | Accepted  | Correct creditors balance should be brought to account.                       |
| (h) | As payments and receivables amounting to Rs. 2,800,868 for the carpeting project of the road behind the Galenbindunuwewa Agriculture Office implemented by the Local Development Supporting Project (LDSP) had not been included in the industrial debtors and industrial creditors accounts, the balance of the industrial debtors and creditors had been understated by that amount. | Accepted. | Correct industrial creditors and debtors values should be brought to account. |
| (i) | Although a sum of Rs. 11,620,713 which was due to from the industrial debtors for 19 projects implemented in the previous years had been received in the year under review, it had not been credited to the relevant ledger accounts. As a result, the industrial debtors value to be received as at 31 December of the year under review had been overstated by that amount.          | Accepted. | Only the correct debtors value should be brought to account.                  |

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| (j) | As the release of cash in hand relating to industrial debtors and creditors amounting Rs. 2,880,011 and Rs. 3,174,834 respectively in the year under review had not been brought to account, cash in hand relating to industrial debtors and creditors balances as at 31 December of the year under review had been overstated by that amount. | Accepted. | Only the correct value of the cash in hand should be brought to account. |
| (k) | An amount of Rs. 364,700 due for renting 05 vehicles in the year 2019 had not been brought to account as vehicle rental income due as at 31 December of the year under review.   | Accepted. | All the receivable income should be brought to account.                  |
| (l) | Six culvert and bridge construction projects worth Rs. 2,173,905 certified to be completed by 31st December of the year under review had been stated in the financial statements as road repair and maintenance expenditure instead of being stated as capital expenditure.  | Accepted. | All capital expenditure should be identified and brought to account.     |

#### 1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Ledger accounts and journal entries had not been prepared for 231 assets, liabilities and income and expenditure accounts worth Rs. 1,849,758,530.	Accepted.	Ledger accounts and journal entries should be prepared before preparing financial statements.

#### 1.7 Non-compliance

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
(a) Rule No. 64 of Chapter III of the Extraordinary Gazette Notification No. 2182/39 issued by the Governor of the North Central Province on 03 July 2020	A number of 895 payment vouchers valued at Rs. 27,905,973 pertaining to the period from June to December 2020 had been approved and certified by the Chairman himself.	Accepted.	Action should be taken in accordance with the Rules.

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| (b) | Letter No. NCP / LG / DE / 04/04/2020 dated 28 March 2020 of the Commissioner of Local Government, North Central Province. | A number of 895 payment vouchers valued at Rs. 27,905,973 pertaining to the period from June to December 2020 had been approved and certified by the Chairman himself. | Accepted | Action should be taken in accordance with the Circular. |
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## 2 Financial Review

### 2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 53,653,628 for the year ended on 31 December 2020 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 3,063,934.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) <b>Rates and Taxes</b></p> <p>No necessary action had been taken to recover the Rates in arrears of Rs. 4,826,135 as at 31 December 2020 and that value showed a difference of Rs. 873,182 with the corresponding reports.</p>	Accepted.	Action should be taken to recover the Rates in arrears.
<p>(b) <b>Rent</b></p> <p>No necessary action had been taken to recover the outstanding rent of Rs. 2,777,000 as at 31 December of the year under review and that value showed a difference of Rs. 111,500 with the corresponding reports.</p>	Accepted.	Action should be taken to recover the outstanding rent.
<p>(c) <b>Licence Fees</b></p> <p>Necessary steps had not been taken to recover licence fee and service charges of Rs. 1,314,787 as at 31 December of the year under review.</p>	Necessary steps thereon will be taken in the future.	Action should be taken to recover the relevant income.

### 03. **Operating Review**

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The following matters were observed with respect to the execution of duties charged with the Council 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 **Management Inefficiencies**

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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(a) Property of the Sabha had been auctioned and money had been paid as per the judgment in the case relating to the Pond Project and another Rs. 4,245,707 further remained payable. Eight years have passed since 2012 up to the year under review, whereas the Management has not reached a formal legal agreement with the relevant parties regarding the balance due.	Further action will be taken on legal advice.	It is required to ensure as that amount is a payable amount.