

Galgamuawa Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Galgamuawa Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, and cash flow statement 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 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.

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 Galgamuawa Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 Practices, 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 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 required by 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

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) Since 20 lands and buildings owned by the Sabha had not been assessed and included in the financial statements, the fixed assets and the revenue contribution to capital input account had been understated by that amount in the financial statements.</p>	<p>Action will be taken to include the value of these assets in the financial statements of the year 2022.</p>	<p>Accuracy should be ensured in accounting.</p>
<p>(b) As an expenditure of Rs. 19,122,485 incurred for the development of 06 buildings during the year under review and equipment worth Rs. 187,196 purchased during the year had not been brought to account, the fixed assets and the revenue contribution to capital input account had been understated by Rs. 19,309,681 in the financial statements.</p>	<p>Action will be taken to include it in the financial statements of the year 2022.</p>	
<p>(d) Since the stamp duty income of Rs. 839,900 received for the year under review and the stamp duty income of the last three month of the year 2021 had not been assessed and included in the financial statements, stamp duty income had been understated in the financial statements.</p>	<p>This was noted down to include in the financial statement of the year 2022.</p>	<p>Accuracy should be ensured in accounting.</p>
<p>(d) Although the salary reimbursement related to the year under review was Rs. 65,071,751, it had been shown as Rs. 64,870,201 in the Income and Expenditure Account and as such, the salary reimbursement had been understated by Rs. 201,550 in the financial statements.</p>	<p>Action will be taken to correct this in the ensuing year.</p>	
<p>(e) Despite being settled an amount payable for hiring machines valued at Rs. 116,706 from the year 2019 to 2021, it had been further shown as the creditors in the financial statements without eliminating the relevant value.</p>	<p>It is informed that this matter will be corrected in the preparation of financial statements of the year 2022.</p>	

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 12,186,601 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 10,641,946.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

	Audit Observation	Comment of the Sabha	Recommendation
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(a)	Shop rents of Rs. 358,909 and fines of Rs. 62,970 had not been recovered from 23 shops on the ground floor of the public market as at 31 December of the year under review.	Legal actions have been initiated to recover all these arrears.	Lease rent should be recovered on time.
(b)	There are 45 shops around the bus stand and those have not been assessed. Further, the rent of Rs. 86,571 that remained recoverable for more than 17 years had not been recovered.	It is informed that the arrears of Rs. 86,571 will be recovered in the future.	Action should be taken to timely assess the shops rent and recover the arrears.
(e)	A lease rent of Rs. 1,353,974 that remained unrecovered in 08 instances from 03 to 05 years relating leasing of assets of the Sabha on annual tenders and the arrears of related fines of Rs. 24,405 had not been recovered.	The arrears amount is Rs. 1,353,974. Legal action has been initiated to recover that arrears and the fines.	It should be looked into regarding the sub-leasing and legal action should be taken against it.
(f)	Prepayment amount of Rs. 2,758,309 to be recovered from 08 shops of the public market had not been recovered even by 31 December 2021.	It is informed that action will be taken to recover the receivable amount of Rs. 2,758,309.	Action should be taken to recover the money that should be paid as a lump sum.

03. 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 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
It was observed that a former deputy chairman of the Galgamuwa Pradeshiya Sabha had constructed a large scale commercial building within the Aracanwewa, Wanela reserve in the Galgamuwa town without approval of the Pradeshiya Sabha. Although law suits have been instituted at resent, it was observed that the constructions had been fully completed and the building had been leased out. The authorities of the relevant institutions had not taken action on time.	As it is an unauthorized construction, the Urban Development Authority has taken legal action regarding the construction.	Legal action should be taken regarding unauthorized constructions.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Although the approval of the Sabha and the Minister in charge of the subject had been obtained to construct a building on the land with 400 square feet donated in the year 1967 to construct a public well near the filling station of the Galgamuwa town and lease it for a period of 25 years, the lessee had been given opportunity to construct the building. In terms of Section 7 of the lease agreement signed with the lessee, it has been stipulated that the lessee should not carry out the construction. Nevertheless, a large building has been constructed on this land and a business place too has been built. However, approval of the Sabha has not been obtained and the Sabha has not carry out any inspection. Although an assessment of Rs.16,000 has been given for this business place in the year 2017, it has not been recovered. As a result, an income of Rs. 896,000 has been lost from May 2017 to December 2021.	On the approval of the Minister in charge of the subject, a commercial building has been constructed on the land with 02 perches and the commercial right thereof has been given for a period of 25 years. An assessment of shops had been conducted on 25.05.2017 and the monthly rent had been stated as Rs.16,000. Although notifications were made on several occasions to recover the assessed amount, payment had been rejected, and an agreement had also not been signed.	Buildings should be constructed and leased on the lands of the Sabha with commercial value. Nevertheless, due to providing opportunity to the lessee to carry out the construction, large scale constructions had been carried out, thus creating a situation to deprive the land to the Sabha. Lease should be recovered as per the land value.

3.3 Apparent Irregularities

----- Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) It was observed at the physical inspection carried out on 04 May 2022 that having planned to construct , without permission, a two-storied shop in a void allocated to the commuters to retain at the new bus stand of the Sabha, arrangements were making to lay a concrete slab on 06 columns erected within an area of 20 feet in width and 20 feet in length. The top management of the Sabha had not taken action regarding this unauthorized construction.	The constructions of the part to be built adjacent to the new bus stand have been stopped at present. It is informed that action will be taken in accordance with the recommendations made by the Urban Development Authority in the future.	Disciplinary action should be taken according to the Establishments Code with regard to the failure of the responsible officers of the Sabha to take steps until the unauthorized constructions were carried out in a void of the bus stand of the Sabha.
(b) The shop No.04 of the Sabha situated at the new bus stand had been given to a lessee in July 1993. An arrears of Rs. 52,920 had not been paid to this shop by the year 2020 and it was observed at the inspection carried out on 04 May 2022 that a lessee had obtained the shops Nos. 3 and 4 on lease form a former chairman of Galgamuwa Pradeshiya Sabha and Rs.40,000 were being paid per month. Accordingly, despite being illegally acquired a property owned by the Sabha and constructed a 03 storied building by totally changing its structure, the responsible officers of the Pradeshiya Sabha had not taken any step.	Although it was confirmed that the monthly rental for the shop No.04 was being paid, as there was an arrears due to not paying rentals since several months, it was informed in writing to pay the relevant money in the year 2016. As a reply to the relevant letter, a person has been informed in writing on 18.05.2016 to submit the documents of claim to the Sabha. It has been informed that action should be taken to recover the possession of these shops and if there is an unauthorized construction, the construction be removed after confirming the ownership and thereafter, action should be taken to recover the arrears.	The responsible officers of the Sabha should take steps to protect the properties of the Sabha by taking action lawfully on confirmation of the ownership of the properties belonging to the Sabha.

3.4 Deficiencies in the Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) Under the Programme for Strengthening Pradeshia Sabha, 2021, a sum of Rs. 3,252,122 had been spent for the renovation of Monnekulama crematorium. It was observed at the physical inspection of this project conducted on 04 May 2022 that Rs. 56,539 had been spent to apply paints on the natural stones for about an area of one meter, Rs. 753,246 to apply paints twice on the paving blocks of the crematorium and Rs.302,454 had been spent to draw a yellow line with Thermoplastic paint (yellow) along the roads laid with paving blocks.	Paints have been applied to increase the beauty of the stones and the paving blocks.	In doing constructions by spending money, they should be constructed efficiently, economically and productively. Fruitless expenditure such as applying paints on the natural stores for external beatification should not be incurred.
(b) Under the provisions of the State Ministry of Rural and School Sport Infrastructure Facility Development, the construction of pavilion of the U.B.Wanninayaka Stadium had been completed at a cost of Rs. 4,948,898 in the year 2021. It was confirmed at the physical inspection carried out on this project on 04 May 2022 that a payment of Rs. 184,642 had been made for the Asbestos sheets, whereas the Asbestos used for this pavilion had been again used for the new pavilion. In terms of work item No.30, a sum of Rs. 187,550 had been overpaid for fixing Aluminum composite panels in 4 mm.	In terms of Work Item 24, the old Asbestos sheets could not be used as they had been decayed forming holes on the sheets. The errors of the measurements relating to fixing composite panels will be corrected.	It was not confirmed that new sheets were fixed. In making payments for bills, correct measurements should be taken.