

Ibbagamuwa Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ibbagamuwa 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 Ibbagamuwa 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.

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.

- 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.
- 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
(a)	Since value of Rs. 2,246,000 of 08 plots of public lands received by the Sabha from auctioned lands during the year under review and 04 lands included in the fixed assets register had not been stated in the financial statements, the value of the fixed assets and the revenue contribution to the capital input account had been understated by that amount.	The plots of land which are not included in the financial statements should be included in the account.	Accuracy should be ensured in accounting.
(b)	Value of 02 lands of the Sabha had been overstated by Rs. 115,000 in the financial statements.	It is informed that the value of relevant plots of land will be included in the account.	
(c)	In terms of Section 217 of the Extraordinary Gazette No.554/5 dated 17.04.1989 of the Democratic Socialist Republic of Sri Lanka, a survey on the properties belonging to the Sabha should be carried out. Nevertheless, action had not been taken to assess and account for the lands in which 176 wells of the Sabha were situated and the land worth Rs.500,000 situated in	This will be corrected by carrying out an assessment in the ensuing year.	

Thummullahwna at Wewagawahena had been stated twice in the financial statements.		
(d) A sum of Rs. 354,909 spent for the development of 02 buildings during the year under review had not been capitalized.	Action will be taken to capitalize it in the ensuing year.	
(e) The water bowser worth Rs. 350,000 included in the fixed assets register had not been brought to account and due to stating the nickel bowser worth Rs.315,000 as Rs.750,000, a sum of Rs. 435,000 had been overstated, and the tractor valued at Rs. 1,752,000 had been stated as Rs. 1,650,000, thus understating by Rs. 102,000 in the financial statements.	This will be corrected in the ensuing year.	
(f) The library books worth Rs. 913,593 had been stated as the books that had not been presented to the verification of stores and it had been eliminated from the financial statements by journal entry No.33.	This will be corrected in the preparation of the accounts for the year 2022.	Accuracy should be ensured in accounting.
(g) In accounting for the stocks of the Sabha, action had not been taken to eliminate the abnormal balance of Rs. 1,230,377 by comparing it with the stocks available in the stores.	The deficiencies of the stores accounts will be corrected in the preparation of the account for the ensuing year.	
(h) Since the Ayurvedic Stores Account balance does not tally with the physical balance of the stores, an addition of Rs. 364,725 had been made.	The calculation will be correctly made in the future.	
(i) Since the balance of Rs. 1,180,696 to be paid to the National Machinery Authority as at 31 December of the year under review had been brought to account as Rs. 611,712, creditors of Rs. 568,984 had been understated in the financial statements.	Action will be taken to correct the under calculation of the loans.	

(j)	No provisions had been made in the accounts for audit fees during the year under review.	Action will be taken to correct this in the ensuing year.	Accuracy should be ensured in accounting
(k)	The stamp duty of Rs. 24,739,018 received in excess of the provisions related to the preceding years, had been adjusted to the accumulated fund without being credited to the revenue of the year under review.	Action will be taken to credit it to the revenue of the year under review.	
(l)	Despite not implementing 30 industries worth Rs. 25,497,023 under the Rural Road Development Programme during the year under review, those industries had been brought to account as debtors and creditors capital income and capital expenditure.	This will be corrected in the ensuing year.	
(m)	Although the stamp duty to be received as at 31 December of the year under review was Rs. 81,268,593, it had been stated as Rs. 60,000,000, thus understating by Rs. 21,268,593 in the account.	This will be corrected in the ensuing year.	
(n)	Although the court fines to be received as at 31 December of the year under review was Rs. 4,507,581, it had been stated as Rs. 4,123,395, thus understating by Rs. 384,186 in the account.	This will be corrected in the ensuing year.	

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. 37,232,056 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 31,845,561.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
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Rates and Taxes		

Rates and taxes of Rs. 6,960,585 had not been recovered from 4,128 assessment units by the end of the year under review and no proper arrangement had been made to recover the dues.	Action will be taken to recover the arrears.	Arrears should be recovered expeditiously.
Rent		

(a) Shop rents of Rs. 986,100 had not been recovered from 8 shops in Melsiripura over a period from 15 months to 70 months and the Sabha had not taken measures in accordance with the agreements.	Although this has been started in 2013, it is very unsuccessful business. Since these shops have been constructed at the Melsiripura bus stand, consumers do not visit to these shops.	If these shops have been leased calling tenders, lease should be recovered.
(b) The shops at the Melsiripura bus stand have been leased out in the year 2013 under the pre-payment method and pre-payment of Rs. 936,516 had not been recovered even by the date of audit on 31 December 2021 although a period of 09 years have passed.	Out of the arrears of Rs. 2,155,711 as at 31 December 2021, a sum of Rs. 1,219,195 has been settled.	Shops should be leased by recovering the payments as a lump sum. If the payments are not so paid, shops should be taken over by the Sabha and re-tendered.

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 Apparent Irregularities

	Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a)	<p>The extent of land reserved for the public purposes in the year 1999 from the Wagollawatta land with 27 acres is 368.6 perches. A family had been settled in an area of 30 perches of this auctioned land by the former political authority from the year 2010 without permission. It was observed at the inspection of the plots plan that 15 plots of lands had been vested in the Sabha at the same location as the common plots, whereas those lands had not been allocated for public purposes. The responsible officers of the Sabha had not taken action to initiate legal proceedings in this connection.</p>	<p>In the examination of files relating to the land auctions carried out in 1999, there is no confirmation to the effect that a formal method had been followed to identify the common plots of land owned by the Pradeshiya Sabha and to physically protect such lands. As those plots have not been covered with a safety fence, it is found difficult to distinguish whether there are common plots of lands, as time passed.</p>	<p>The Sabha should take measures to protect the common lands vested in the Sabha and provide them for public purposes.</p>
(b)	<p>Out of the Nebata Henegedara Mukalana auctioned land, the Lot No.88 with 02 roods and 05 perches and Lot No.83 with 01 rood and 38.9 perches had been received for the public purposes. It was observed that the Lot No.83 allocated from this auction is a marshy land and a high power line has been installed over the Lot No.83. Despite the above backdrop, this unusable plots of lands had been obtained for the public purposes.</p>	<p>In the sale of plots of lands in a land area of more than 05 acres, the concurrence of the Provincial Steering Committee should be obtained therefor. Accordingly, the concurrence of the Provincial Steering Committee has been given on 08 March 2022 for this auction by including conditions.</p>	<p>In terms of Paragraph 9(2) of the adopted by-laws No.06 of 1952, action should be taken to take over the plots of land allocated for the public purposes from the land partitioned into blocks.</p>
(c)	<p>It was observed that in the recovery of 01 percent income from the Nabeta Henegedara Mukalana land auction, it had not been collected on the actual sales value. According to the documents available in the auction agency and the information obtained, the plots of land bounded to the Dambulla- Kurunegal road had been sold at Rs. 275,000 and the plots of lands located off the road had been sold at a rate between Rs. 205,000 and</p>	<p>It is stated that the Department of Local Government has studied the fact that there are numerous issues regarding the recovery of 01 per cent tax from the auctioned lands. Therefore, it has been decided to appoint a committee for this purpose and recover the 01 percent</p>	<p>In the recovery of 01 percent tax from the auctioned lands by the Sabha, that income should be obtained based on the actual sales value.</p>

Rs.180,000 and the prices had been displayed. Nevertheless, 1 per cent tax of the sales income had been recovered with a shortfall of Rs. 1,165,112 of the due amount.

tax according to the assessment report presented by that committee after conducting the field inspections.

3.2 Deficiencies in the Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
<p>The construction of the road from Kumbukwewa to Hipawwa had been constructed at a cost of Rs. 876,642 in the year 2020. It was observed at the physical inspection carried out regarding the work on 04 August 2021, the finishing of the road and the concrete mixture were at a poor level. Although the thickness of the road should be 150 millimeters, the thickness of the middle of the road was at 111, 130 and 144 millimeters on 03 places inspected.</p>	<p>It is informed that the contractual society had agreed to lay another concrete layer on the road and the retention money has not been paid.</p>	<p>Further activities of this road should be carried out on engineering consultations.</p>

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
<p>Although provision of Rs. 6,807,732 had been received for the construction of a compost yard relating to the solid waste management during the year under review, the Sabha had failed to complete that project. Without being produced compost from about 12 tons of waste collected at a cost of Rs. 2,810,261 daily, it had been buried in the premises of the waste management centre. The plastic, cardboard and polythene collected by deploying 15 employees and 03 tractors had been stored at the temporary waste yard constructed in premises the Solid Waste Management Centre. The Sabha's attention had not been drawn on a proper waste management process.</p>	<p>It is informed that action will be taken to construct a fully equipped solid waste management centre in the year 2022 with the use of provisions made by the Ministry of Local Government.</p>	<p>Degradable and non-degradable waste should be managed properly.</p>

