

## **Polgahawela Pradeshiya Sabha - 2021**

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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 Polgahawela 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 Polgahawela 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**

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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 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)**

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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) 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
(a) A land containing 19 acres valued at Rs. 11,400,000 that is not owned by the Sabha had been brought to account and 35 lands worth Rs. 19,376,591 had not been brought to account.	Action will be taken to capitalize the lands.	Lands and buildings should be capitalized.
(b) An expenditure of Rs. 4,317,228 incurred for the development of buildings owned by the Sabha during the year under review had not been capitalized.	The value of buildings which was unable to account will be brought to account.	Accuracy should be ensured in accounting.
(c) As at 31 December of the year under review, the value of 01 land had been understated by Rs. 90,000 and the value of 04 lands had been overstated by Rs.1,799,000 in the account.		
(d) A balance of Rs. 18,998,252 that had not to be paid as at 31 December of the year under review had been brought to account as the supply creditors and 02 industrial creditors balances worth Rs. 800,000 had been omitted from the accounts.		
(e) The trade licence and business tax of Rs. 308,920 due to be received as at 31 December had not been brought to account.		
(f) The fixed deposit interests to be received during the year under review and the fixed deposits value as at the end of the year under review had been understated by Rs. 557,154 and Rs. 663,514 respectively in the financial statements.		

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| (g) | A sum of Rs. 149,825 payable to the Director of Pensions as at 31 December of the year under review had been understated in the financial statements.  | This will be corrected in the preparation of account of the year 2022. | } | Accuracy should be ensured in accounting |
| (h) | The audit fees of the year under review had not been accounted for as an expenditure and provisions had not been made for the audit fees payable for the year under review and the preceding year. | The defect of not making provisions will be corrected.                 |   |  |

**1.7 Non-compliance**

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Non-compliance with Laws, Rules, Regulations and Management Decisions  
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Instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to laws, rules, regulations and management decisions	Non-compliance	Comment of the Sabha	Recommendation	
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Circular No.2015/01 dated 02 November 2015 of the Commissioner of Local Government	Paragraph 03 (i)	Although in providing materials and financial assistance for any construction of religious place, it should be limited to a maximum of Rs.20,000, financial assistance of Rs.700,000 had been provided to 27 temples on 07 occasions exceeding the above limit.	Since that amount is not sufficient, the public representative of the area provides financial assistance from the allocated provisions.	The limits stipulated in the circulars should be followed.

- Paragraph 08 (f) (i) In providing assistance without the approval of the Minister in charge of the subject and for the voluntary organizations, although such assistance can be provided subject to maximum of Rs.15,000, assistance of Rs.350,000 had been granted to 10 societies without following those instructions. Since the amount allocated for the societies and organizations to purchase relevant items is not sufficient, the provision is provided for the relevant society to meet the deficit by the society. Limits indicated in the circulars should be followed and having obtained the deficit amount from the society, goods should be purchased through the procurement process.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the expenditure of the Sabha in excess of the recurrent revenue amounted to Rs. 98,499,491 for the year ended 31 December 2021 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 2,657,500.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
Rates and Taxes		
(a) There was an outstanding balance of Rates amounting to Rs. 15,836,483 from 7,971 assessment units by the end of the year under review. No proper arrangement had been made to recover this arrears.	Due to the existence of 04 vacancies of the post of Revenue Inspector, prevailing economic crisis, Covid epidemic situation, collection of revenue in the field was interrupted.	Arrangements should be made to collect revenue and accordingly, revenue should be collected.
(b) As at 30 November 2021, a lease amount of Rs. 420,650 was due from 04 meat stalls that had been leased for the year under review.	Prompt action will be taken to recover the arrears.	In leasing assets, revenue relevant to each year should be recovered without arrears.

### Licence Fees

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Action had not been taken to recover the business tax income of Rs. 727,000 as at the beginning of the year.

Action is being taken to recover the dues.

The arrears of revenue at the beginning of the year should be recovered.

### 3. Operating Review

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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 Failure to Achieve Expected Benefits

Audit Observation	Comment of the Sabha	Recommendation
----- Although the Puraneguma Project had constructed public market with 52 shops by spending Rs.159,251,130 from the Local Loan Development Fund and the Sabha funds had handed over to the Sabha in the year 2015, action had not been taken to lease this property and earn income therefrom.	----- There is difficulty in opening the public market in the uncertain condition prevailing in the country under the present scenario. It is informed that the market will be opened at the first possible instance permitted to open it and accordingly action will be taken to earn income by providing shops to the owners.	----- On completion of the work of the public market, it should be opened and leased and thereby, income should be earned while providing services to the public.

#### 3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) Without being taken action to obtain the Bandawa beef stall by the Sabha on lease and to lease it by calling for tenders, the owner of the building had been given the right to sale meat at an annual rate of Rs. 594,485 without being tendered the stall.	This meat stall had been consciously obtained on lease by the owner of the land. The tax of this place has been taken over by the Sabha and any financial transaction has not taken place. It is informed that this place has been obtain on tax by the Sabha solely for the protection of legality of the agreement entered into with him.	The Sabha has the right to sale meat. Accordingly, having obtain the building with the meat stalls, the right to sell meat should be leased.
(b) The canteen of the Sabha which is located at the bus stand had been assessed for Rs.7,000 in the year 2007 and an outstanding balance of Rs. 1,076,859 was due from that stall by 31 December 2018.	It is informed that a court case is pending in this connection.	Action should be taken to lease the assets owned by the Sabha and arrears of revenue should be recovered.

Nevertheless, action had not been taken to recover this arrears. Due to the discontinuation of billing for this stall from December 2018, Sabha had lost an income of Rs. 252,000 from 2019 to 2021.

### 3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
<p>Although the Polgahawela Public Playground was being used as an immovable property owned by the Sabha, action had not been taken to obtain its freehold right. A part of this public playground had been taken over by the Government to construct a flyover. Although an amount of 2 crore rupees has been approved as compensation for this property, due to the lack of documents and instruments to confirm the ownership of this property, and another person has come forward for the right of this playground, it was not possible to get the compensation since the Sabha did not have the freehold right to the playground.</p>	<p>Due to the reasons such as taking over a part of the public playground for the construction of the flyover to the government, although the compensation was approved therefore, another outside person came forward for these plots of land owing to the lack of documents to confirm the right to the property, the Divisional Secretary has already filed a case in the district court to identify the rightful owner and settle the land.</p>	<p>The authorities should take action to receive the lawful right of the lands owned by the Sabha.</p>

### 3.4 Apparent Irregularities

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) It was observed in the physical audit inspection that a person had constructed a house and resided on the Lot No.08 with 48 perches of the Ganegoda watta common land. No action had been taken to provide this land for the public purposes of the residents of the auctioned land by taking it over to the Sabha.</p>	<p>The residents had not made any request for public purposes. These 02 lands further remain under the custody of the Sabha.</p>	<p>The authorities of the Sabha should take measures to protect the lands received for the public purposes. A person has illegally residing in an area of 48 perches of this land. The unauthorized construction should be removed.</p>

- (b) Although the cadastral plan has been approved by notifying that Lot Nos. 15,16,17,18 and 19 of the Godawela Batagolla auctioned land should be vested in the Pradeshiya Sabha for public purposes in lieu of 77 perches of land allocated for public purposes, there was no evidence in the file that the land was vested in the Pradeshiya Sabha by a deed.
- As pointed out by the audit, although the cadastral plan stated the public land area to be owned by the Sabha, there is no indication in the file that it was vested in the Sabha by a deed.
- Disciplinary action should be taken against the officers who did not take measures to obtain the 77 perches of lands for public purposes according to the file.

### 3.5 Deficiencies in the Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
<p>The work of the construction of Godigamuwa side wall had been completed at a cost of Rs. 606,824 of the Sabha fund in the year 2020. This construction had been carried out without taking over the relevant land area from the owners of the relevant paddy fields. Due to instability of the foundation, it had collapsed and the work had been done without proper supervision and without using technology. Although the Sabha had sustain a loss of Rs. 606,824, investigations had not been conducted regarding the loss.</p>	<p>The wall collapsed as it could not resist the high flood conditions. It remained undamaged for about 06 months after the construction until it got caught in the flood. The foundation was cut to a depth of 750mm from paddy level as planned and the minor variations can be accepted.</p>	<p>When a construction is carried out in a paddy land, proper standards should be followed. As the wall has totally collapsed, it had been built without paying due care on the quality. The relevant loss should be recovered from the relevant officers.</p>
<p>(b) For the reconstruction of the road proceeding near the Bandawa filling station by laying tar, an amount of Rs. 297,403 had been spent from the Sabha fund. Although the projects should be selected so as to receive benefits to more beneficiaries in carrying out projects using Sabha funds, it was observed at the perusal of files and physical inspection conducted in this regard that the project had been carried out for the development of a road leading to a private house of a member of the Polgahawela Pradeshiya Sabha.</p>	<p>At the request of the Honourable Member, this road was developed laying tar with the approval of the Development Committee held on 05 April 2021. This is a project proposed and approved under the provisions of the Members and action has been taken to inform the General Assembly has in this regard.</p>	<p>Projects should be selected so as to receive benefits to more beneficiaries in carrying out projects using Sabha funds.</p>



- (d) A side wall had been constructed for the Galabadagama cemetery in the year 2013 and payment of Rs. 523,323 had been made therefor. It was observed at the physical inspection carried out on this construction that the wall had collapsed and it had been damaged. It was observed that this damage had caused due to substandard constructions.
- The upper part of the wall has collapsed due to water pressure from the middle part of the wall caused due to the heavy rains experienced on 13 and 14 May 2021. It is pointed out that the reason for collapsing the wall is not due to substandard construction, but the heavy rains.
- Constructions should be carried out according to the standard.