

## **Pathadumbara 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 Pathadumbara Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Income and Expenditure Account and 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 Provisions of the National Audit Act No.19 of 2018 and with Sub-Section 172 (1) of the Pradeshiya Sabha Act No.15 of 1987 My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Pathadumbara Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified 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 Principles, 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 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.

#### 1.4 **Audit Scope (Responsibility of the Auditor for the audit of 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 exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit 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 its 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 it 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018 recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit Observations on the preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Rs.7,557,370 was less accounted by showing Rs.66,671,010 in the financial statements even though the arrears other income was Rs.74,228,380 in the general ledger.	Action will be taken to correct it in the future.	Action should be taken to account it correctly.
(b) Interest of urban development savings account during the year under review was overstated by Rs.343,181.	Action will be taken to correct in the year 2021.	Action should be taken to account it correctly.
(c) Expense of the year under review for transport, connection and needed services of the water service programme was overstated by Rs.716,740.	Action will be taken to correct in the year 2021.	Action should be taken to account it correctly.
(d) Value of Rs.1,893,455 was not accounted as payables which was payable for 06 development projects relating to the year under review.	Sub document for that value was not included to that development project by a mistake.	Action should be taken to account it correctly.
(e) Due to omitting Rs.3,373,565 from the accounts that was payable relating to 18 occasions, other payables and expense of the year was understated by that amount in the financial statements.	Action will be taken to correct the value of Rs.3,373,565 relating to other payables.	Action should be taken to account it correctly.

## 1.6.2 Contingent Liabilities

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### Audit Observation

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Court cases that were filed from the year 2004 to the year 2020 by 18 external parties against the Sabha regarding to widening roads, breaking walls, removing unauthorized constructions and blocking culverts was not disclosed by accounting notes.

### Comments of the Sabha

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Action will be taken to correct it in the future.

### Recommendation

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Information required should be disclosed.

## 1.6.3 Unreconciled Control Accounts or Records

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### Audit Observation

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There was a difference of Rs.125,466,511 between the balances of 23 account balances in the financial statements which amounted to Rs.455,357,654 and the balances of source documents.

### Comments of the Sabha

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Action have been taken to correct quickly by finding out reasons for the differences.

### Recommendation

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Action should be corrected by comparing the differences.

## 1.6.4 Documentary Evidences not made available for Audit

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### Audit Observation

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Verification was not done in a satisfactory manner during the audit due to failure of submitting the proof for balances and source documents relevant to 6 account items that have a value of Rs.26,555,451.

### Comments of the Sabha

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Correct source documents will be submitted after the asset survey is over.

### Recommendation

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Proof should be submitted that confirm the balances shown in the financial statements.

## 2. Financial Review

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### 2.1 Financial Result

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According to the financial statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31<sup>st</sup> December 2020, amounted to Rs.37,080,319 as compared with the corresponding amount in excess of revenue over recurrent expenditure for the proceeding year amounted to Rs.14,423,583.

## 2.2 Revenue Administration

### 2.2.1 Rates and Taxes

#### Audit Observation

An arrears of Rs.129,888 was not collected that was due since the year 2018 from a private garment operating in the Sabha area.

#### Comments of the Sabha

It is expected to take legal action against this institution.

#### Recommendation

Actions should be taken to collect the arrears.

### 2.2.2 Court Fines and Stamp Duties

#### Audit Observation

There was arrears of Rs.29,122,168 stamp duties and Rs.344,330 court fines that was receivable as at 31 December the year under review from the chief secretariat office of Central Provincial Council and other institutions.

#### Comments of the Sabha

Action has been taken to keep accounts properly by adjusting the cash received and receivable values for court fines and stamp duties.

#### Recommendation

Action should be taken to collect the receivable income and to account it correctly.

## 3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Section 3 of the Pradeshiya Sabha Act are shown below.

#### Audit Observation

It was unable to get the expected outcomes due to remaining inactive and not using the fair even though Rs.1,980,000 for repairing the Aluthgama fair during the year under review.

#### Comments of the Sabha

It is expected to take future actions based on the decision of General Assembly relating to Aluthgama fair according to letter No.CPC/CLG/4/1 general dated 27.04.2021 of Local Government Commissioner.

#### Recommendation

Action should be taken to get expected outcomes.

### 3.1 Management Inefficiencies

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Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) So far action has not been taken by the responsible officers to collect any income even though an expense of Rs.3,339,857 was incurred by the Pathadumbara Pradeshiya Sabha for the project that was signed to share equally the income and expenses of Aluthgama Solid Waste Center by joining Pathadumbara and Kundasale Pradeshiya Sabhas.	It is difficult to take future actions due to not showing enough attention relating to this matter by Kundasale Pradeshiya Sabha even though a discussion was done relating to credit al income and expenses to a joint fund of the two Local Government Institutions of the project.	Action should be taken to collect the income owed for Sabha and maintain properly the project according to the contract.
(b) Action has not been taken to take over 22 perches land as at the year under review from the two lands that should be assigned to Sabha from Madikale Henewatte land that was auctioned by dividing in the year 2016.	2 parts of this auctioned land is owned by the Sabha.	Action should be taken to assign the lands that are not properly assigned.
(c) As at 31 December year under review development projects debtors balances amounted to Rs.39,984,889 and according to time analysis Rs.191,664 account balances are relevant from a time period of 1 to 3 years and the account balances which exceed 3 years was Rs.724,003.	development projects debtors of the Sabha has been referred to replenishment and action has been taken to follow - up it.	Action should be taken to collect the arrears debtor balances.
(d) As at the year under review the balances of 05 payable accounts amounted Rs.63,052,412 and according to time analysis the account balances relevant from 1 year to 3 years amounted to Rs.59,282,990 and balances which exceed 3 years amounted to Rs.3,769,422	Action will be taken to settle quickly by seeing into these items and it is expected to invest in an approved effective development project with the approval of urban Development Authority from urban development account balance.	Action should be taken to settle the payable balances.
(e) It was observed inactive throughout the year under review a range from Rs.27,274,935 to Rs.111,066,694 in the current account that is maintained in the Peoples Bank without acting or	Those values should be maintained in the current account owned by the Sabha until all the external liabilities are settled.	Financial managements should be properly planned in a manner that there is no cash in current account inactive for a long time.

settling Rs.76,506,259 worth external liabilities or investing according to section 131 of the Act or using to achieve goals of Finance Council in Pradeshiya Sabha fund.

**3.2 Idle or Underutilized Property, Plant and Equipment**

Audit Observation	Comments of the Sabha	Recommendation
It has been inactive 05 vehicles from a period of 05 to 10 years Rs.5,302,340 worth water bowser and water motor, singer bicycle, tractor and garbage cart owned by the Sabha and action has not been taken to bring to recovery state or auction these vehicles.	03 assets have been auctioned out of 08 inactive vehicles and action has been to find information about 02 assets which do not have information and to give other assets in a rent basis.	Action should be taken to prevent the assets been inactive.

**3.3 Human Resource Management**

Audit Observation	Comments of the Sabha	Recommendation
Action has not been taken to collect distress loan balances that amounted to Rs.477,657 from 8 officers who are transferred, retired, suspended and who left the service.	Action will be taken to collect.	Action should be taken to collect the arrears balances.

**4. Accountability and Good Governance**

**4.1 Environmental Problems**

Audit Observation	Comments of the Sabha	Recommendation
Illegal constructions have been done which block the Balathota Oya that flows near the Madawala City and, action has not been taken to take leagal action against the responsible parties even though the Oya was dirty due to discharging waste to Oya.	Combined tests have been done with public health inspectors relating to this in the year 2021 and arrangements made to take further actions.	Action should be taken to minimize environment pollution.

## 4.2 Sustainable Development Goals

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### Audit Observation

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Failure to achieve the goals even though Rs.400,000 provision has been allocated and 17 sustainable development goals has been identified.

### Comments of the Sabha

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Rs.400,000 provision has been allocated according to expenditure head 505 (7) of the annual budget document for sustainable development goals and, Rs.65,000 has been spent for relevant functions.

### Recommendation

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Action should be taken to achieve sustainable development goals.