

## **Wariyapola 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 financial statements of the Wariyapola Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, cash flow statement for the year then ended and 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 Subsection 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 financial statements give a true and fair view of the financial position of the Wariyapola Pradeshiya Sabha as at 31 December 2020, and 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 based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 of the

## 1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and

- Whether the resources of the 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.

- The financial statements presented by the Pradeshiya Sabha are consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (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
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(a)	Value of 04 lands containing 5 Acres 2 Roods received under the transfer orders from the Divisional Secretariat had not been assessed and brought to account.	This matter was noted down to correct in the ensuing year	Lands owned by the Sabha should be identified and correctly brought to account.
(b)	Value of 09 plots of land worth Rs.1,636,562, and 04 lands containing 4 Roods and 24 Perches which had not been assessed and transferred to the Sabha by the auctions in the year under review and the preceding years had not been accounted for.	Action will be taken to look into this matter and make relevant corrections.	The lands transferred to the Sabha out of all auctioned the lands should be accounted for.
(c)	A sum of Rs. 10,193,877 spent on the development of lands and buildings relating to the year under review and the preceding year had not been brought to account.	This matter was noted down to correct in the ensuing year	All expenditure incurred on the development of buildings should be capitalized.

## 1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Deeds of 10 blocks of lands worth Rs.10,417,672 transferred to the Sabha during the year under review and the preceding years by the land auctions had not been submitted by the auctioner. As a result, ownership of these lands could not be established and those lands could have been subjected to unauthorized usage.	Action will be taken to correct this in the future.	Auctioned lands should be identified and documented, and deeds should be retained to establish their ownership.

## 1.7 Non-compliance

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

Instances of non-compliance with laws, rules, regulations, and management decisions

Reference to laws, rules, regulations, etc.	Non-compliance	Comment of the Council	Recommendation
(a) Paragraph 3 of the Circular No. PL / 7/1/18/1 of March 2020 of the Secretary to the Ministry of Public Administration, Home Affairs, Provincial Councils, and Local Government	Despite instructions that the provision of goods free of charge from provincial councils or local government funds should not be promoted, a sum of Rs. 1,567,935 out of the Sabha fund had been spent to provide 1,360 bags of rations during the Covid pandemic.	It is stated that these expenses have been borne with the approval of the Hon. Governor, North Western Province.	Action should be taken in accordance with the Public Administration Circular issued to cope with this disaster situation.
(b) Urban Development Authority Planning and Building Regulations 22 published by the Extraordinary Gazette Notification dated 10 March 1996 and Urban Development Authority Planning and Building Regulations published by the Extraordinary Gazette Notification dated 06 August 1996.	Although 10 per cent of the allotted land except for the extent of land reserved for roads and protected areas, should be taken over by the Pradeshiya Sabha for public purposes, the deeds relating to plots of land containing 288.84 perches of to be acquired for public purposes from 04 auctioned lands were not in the file.	It is informed that some lands have been allotted and notifications have been made to hand over the deed. The Mihin City Land should be correct as Mihin City Rich Land and the extent of 98.5 perches of land has been received.	Action should be taken to obtain lands from the auctioned lands for public purposes.

## 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. 59,226,510 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 39,608,022.

### 2.2 Financial Control

Audit Observation	Comment of the Sabha	Recommendation
Although out of the fixed deposits worth Rs.108,896,424 of the Sabha deposited in state banks as at 01 January 2020, 05 fixed deposits worth Rs. 66,609,779 had been released, approval of the Sabha had not been obtained for that purpose. A supplementary estimate should be prepared and approval of the General Assembly should be obtained for the expenditure incurred outside the annual budget of the Sabha, whereas action had not been taken accordingly.	It has not been specified in the Rules or in the Act that approval should be taken for this purpose.	Fixed deposits should be encashed with the approval of the General Assembly. Expenditure from these fixed deposits should be incurred after obtaining approval for the supplementary estimates.

## 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 Sabhas 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.

### 3.2 Uneconomic Transactions

Audit Observation	Comment of the Sabha	Recommendation
Having decided to construct a stadium at the Horombuwa auctioned land, 19 coconut trees in the land had been cut down without any assessment. It had been decided as suitable to demolish the volleyball court which was constructed at a cost of Rs. 964,350 from the Sabha fund in 2019 in order to construct this stadium. Without obtaining approval, an outside party had taken steps to cut soil in a portion of this land on which the stadium was proposed to be constructed.	A court case is being tried against the Hon. Chairman in connection with the said gravel cutting.	Assessment should be done for the removal of trees from Sabha lands and action should be taken to select effective projects and spend Sabha funds for those projects.

### 3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) Although 48 shops on the ground floor and first floor of the public market were assessed on 19 July 2019, the Sabha had lost revenue of Rs. 2,202,300 for the year 2020 due to the non-implementation of that assessment.</p>	<p>Approval has been given at the Finance and Standing Committee held on 28 August 2019 to implement the assessment, but the rent was not charged due to objections. It is informed that the monthly rent of all these shops has been billed as per the new assessment.</p>	<p>Expeditious action should be taken to collect the shops rent billed according to the new new assessment.</p>
<p>(b) The total value Rates, acreage tax, rent, cases and industrial creditors receivable as at 31 December of the year under review was Rs.101,698,148. According to the age analysis thereon, the account balances relating to the period from 01 to 05 years totalled Rs.18,731,370 and the account balances relating to the period exceeding 05 years totalled Rs.91,560.</p>	<p>It is informed that action will be taken to recover these balances.</p>	<p>Action should be taken to identify the receivable balances and to recover that balances.</p>

### 3.3 Deficiencies in the Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
<p>A sum of Rs. 1,768,565 had been spent for the project for taring Awulegama Nabadawewa road under the Rural Infrastructure Development Programme, 2020. At the time of physical inspection, the completion of this road about 400 meters remained in poor condition. Stones about 1 ½ ‘‘ had been emerged all over the road. The road surface was not level and finishing of obth sides of the road was observed to be very poor. The tar mixture applied for an area of about 300 meters on both sides of the road was not up to the standard of the mixture applied for the middle of the road.</p>	<p>The matters pointed out by you are acknowledged and the retention money of this project has not been released. A letter has been referred to the contractual organization to rectify these defects.</p>	<p>Construction of the road should be carried out in prescribed standard under the supervision of Technical Officers. Action should be taken to rectify the defects of the road.</p>