

Godakawela Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Godakawela 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 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 Sabha 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 Godakawela 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

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 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.

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 per the requirement of Section 6 (1) (d) (iii).

- (b) The recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv).

1.6 **Audit Observations on the Preparation of Financial Statements**

1.6.1 **Accounting Deficiencies**

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) As court fines revenue relating to the year under review had been brought to account understating by Rs. 4,431,778 the operating revenue and the current assets for the year had been understated by similar amount.</p>	<p>It has been informed that, as the delays of the preparation and obtaining the required approval for the courts fines schedules relating to the year 2020, the particulars relating to the court fines were not available before preparing the final accounts.</p>	<p>The revenue relating to the year under review should be correctly accounted for.</p>
<p>(b) Even though, a total sum of Rs. 1,731,102 including the provisions received from the Sabaragamuwa Provincial Council had been incurred for the project of laying block stones in the Godakawela public market complex, that had been capitalised as Rs. 2,731,102. As such the balance of the revenue contribution to capital outlay account had been over stated by Rs. 1,000,000 As the total expenditure relating to the development program had been billed as capital revenue, the value of the outstanding capital grants as at the end of the year had been overstated by Rs. 731,102.</p>	<p>It has been informed that, action will be taken to rectify in the following year of accounts.</p>	<p>The revenue and expenditure relating to the year should be correctly accounted for.</p>
<p>(c) The cost of the buildings relating to the Madampe fish market amounting Rs. 5,654,649 had not been capitalized.</p>	<p>It has been informed that, action will be taken to rectify in preparation of accounts of the year 2021.</p>	<p>The relevant assets should be capitalized.</p>

- (d) The balance of the account opened and maintained as joint account with the Urban Development Authority had not been presented in the financial statements and as such the value of the cash and cash equivalents as at the end of the year had been understated by Rs. 1,693,333. Further, as the collection of cash to this account had not been identified as revenue, the operational revenue of the year had been understated by Rs. 228,234.
- It has been informed that, action will be taken to rectify in preparation of accounts of the year 2021.
- All receipts and payments for the Sabha should be disclosed in the financial statements.

2. Financial Review

2.1 Financial Results

According to the financial statements presented the excess of revenue over recurrent expenditure of the Sabha, for the year ended 31 December 2020 amounted to Rs. 9,004,505 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 7,637,639.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observation	Comments of the Sabha	Recommendation
(a.) Rates and Taxes		
i. Action had not been taken to recover the balances of arrears of rates amounting to Rs. 3,327,855 as at the end of the year under review.	It has been informed that, actions will be taken to recover revenue such as informing by letters to the persons who has arrears of rates, conduct of mobile services for the arrears of rates which exist more than 02 quarters, send red notices, regularly .	The revenue receivable to the Sabha should recover immediately.
ii. Action had not been taken to recover the balances of the arrears of acreage tax amounting to Rs. 138,738 as at the end of the year under review.	It has been informed that, action will be taken to appoint a committee for acreage tax verification and get settle the balance of the arrears of acreage tax by confirming the ownership of the lands through the committee.	The revenue receivable to the Sabha should recover immediately.

(b.) Other revenue

According to the survey of the advertisement hoardings conducted for the year 2020, action had not been taken to recover the arrears of fees amounting to Rs. 444,726 for the year under review.

It has been informed that, unauthorised advertisement hoardings had been removed already.

Action should be taken to recover the arrears of fees.

3. Operating Review

The matters observed in respect to the activities that should be carried out by the Sabha, such as regularise and control over the matters of public health, public utility services and thoroughfares and the comfort, facilities and will being of the people under Section 3 of the Pradeshiya Sabha Act are given below.

3.1 Management Inefficiencies

Audit Observation

The Sabha had not taken action to recover a sum of Rs.102,000 as licence fees for 38 telecommunication towers established in the authoritative area of the Sabha.

Comments of the Sabha

It has been informed that, first letter relating to the payment of taxes for 34 telecommunication towers identified according to the survey carried out in December 2020 had been sent already.

Recommendation

Action should be taken to recover revenue receivable to the Sabha property.

3.2 Deficiencies in Contract Administration

Audit Observation

An agreement had been entered in to with the contractor for a sum of Rs. 2,753,315 on 03 June 2019 to construct the waste storage centre which estimated cost amounting to Rs. 3,615,000. According to the agreement the work should be completed by 03 September 2019. Nevertheless, the agreement period had been extended up to 18 November 2019 on the request of the contractor. The work had not been completed even that duration and as such the agreement had been cancelled and black listed by the letter dated 04 December 2020. Further, a sum of Rs.

Comments of the Sabha

It has been informed that, the agreement had been cancelled and black listed due to non-completion of the work within the agreed duration period and in the extended period and an estimate is being prepared for the balance work left.

Recommendation

The contractors should be encouraged to complete the development work within the period of work schedule as planned.

1,900,000 had been paid to the contractor for the above work of which physical progress had been 70 per cent but the Sabha had not taken action to complete the above work even by 31 March 2021 the date of audit.

4. Accountability and Good Governance

4.1 Environmental Problems

Audit Observation

Even though, a cost of Rs. 11,156,011 and 24 employees of the staff and 05 vehicles and machinery and equipment had been utilized to dispose about 1800 metric tons of solid waste during the year under review in the authoritative area of the Sabha, the solid waste management project had not been implemented according to the eco-friendly way.

Comments of the Sabha

It has been informed that, due to non-transfer the full ownership of the land called Bandarahenyaya in Balawinna by the land Reform Commission to the Godakawela Pradeshiya Sabha and due to lack of funding for the waste management project, it has not been able to start yet.

Recommendation

The full ownership of the land should transfer for the Pradeshiya Sabha and action should be taken to commence the solid waste management project.