

Kalawana Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalawana Pradeshiya Sabha for the year ended 31st December 2020 comprising the statement of financial position as at 31st December 2020 and the statement of financial operations 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 published 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 Kalawana Pradeshiya Sabha as at 31st 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 matter 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 the 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 as management determine is necessary to enable the preparation of the financial statements that are free from material misstatements, 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 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 misstatements, 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 a 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 asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 discourses, 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 the 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 (1) (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

<u>Audit Observation</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) A total sum of Rs. 1,146,520 incurred for improvement of fixed assets in the year under review had not been capitalized.	It has been informed that, action will be taken to capitalize the expenditure incurred for the improvement of fixed assets.	The cost of the improvement of fixed assets should be capitalized.
(b) Due to non-adjusting of excess provisions of stamp fees and under-provisions of court fines amounting to Rs. 5,688,251 and Rs. 8,099,708 respectively and over-adjusting of receivables of short billing of stamp fees pointed out in the report of the year 2019 amounting to Rs. 234,455 ,the respective accounts had been understated and overstated.	It has been informed that action will be taken to account correctly in preparing financial statements of the following year.	Over provisions of stamp fees and under provisions of court fines should be correctly identified and accounted for.
(c) The revenue totalling Rs. 1,727,869 which could not be recovered due to Corona epidemic in the year under review had been adjusted to the accumulated fund and as such the operating deficit of the year had been understated by similar amount.	It has been informed that the adjustments had been made to accumulated fund due to it appeared as irrecoverable revenue actually.	The irrecoverable revenue during the year under review should not be adjusted to the accumulated fund.
(d) The adjustments had not been made for creditors amounting Rs.249,002 which had been	It has been informed that, it was a failure and the corrections will be made in preparing financial	The amount of the creditors written off during the year should

approved to write off during the statements of the following year. be accounted for.
year under review.

- (e) The salary reimbursement bills relating to the year under review had been brought to account understating by Rs. 267,486. It has been informed that, action will be taken to check and to rectify in preparing accounts of the following year. The bills relating to the year should be correctly identified and accounted for.

1.7 Non-compliances

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

The instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Comments of the Sabha	Recommendation
Section 132(K) of the Pradeshiya Sabha Act No 15 of 1987	The prior approval of the Minister should be obtained in cases where the total amount exceeding Rs. 1,000 per year, when assisting charities or welfare institutions. Nevertheless, it was observed the instances where hume pipes were distributed to the existing societies in the area during the year 2020 without obtaining a report of a technical officer on the need for hume pipes . A total sum of Rs. 2,698,200 had been incurred thereon under 03 objects during the year under review.	It has been informed that, action will be taken to obtain the approval for the purchases making in future.	Action should be taken in terms of the provisions of the Act.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of expenditure over recurrent revenue of the Sabha for the year ended 31st December 2020 amounted to Rs 5,797,765 as compared with the excess of expenditure over recurrent revenue of the preceding year amounting to Rs. 38,918,876.

2.2 Revenue Administration.

2.2.1 Performance in Collection of Revenue

<u>Audit Observation</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) Rates and Taxes		
(i) Action had not been taken to recover the arrears of rates amounting Rs. 2,187,279 as at the end of the year under review. As per financial statements and as per corresponding reports the differences of Rs. 11,182,195 and Rs. 417,021 were observed in the values of assessment tax and the acreage tax respectively.	It has been informed, that even though it was planned to conduct programs of restrain of properties, that programs had not been Implemented due to Covid – 19 epidemic situation. These assessments were notified to the tax payers in writing and through loudspeakers and the accounts balances will be checked and corrected.	Action should be taken to recover the revenue receivable to the Sabha. Further, the Ledger accounts and subsidiary registers should be reconciled.
(ii) Action had not been taken to recover arrears of acreage tax amounting to Rs. 226,164 as at the end of the year under review.	It has been informed that action is being taken to recover arrears of revenue.	Action should be taken to recover the revenue receivable to the Sabha.
(b) Lease Rent		
(i) Due to non-provision of required facilities, action had not been taken to hand over 20 trade stalls of new bus stand through the lease agreements. It was further observed that the estimated revenue amounting to Rs. 808,500 relating to 20 stalls of new bus stand had been shown under the Head 5/22 (shop rent) in the 2020 budget.	It has been informed that these shops will be provided with electricity and will be handed over and action will be taken to recover the shop rent in future.	Lease rental properties should be handed over through lease agreements and action should be taken to recover lease rent revenue receivable.
(ii) Without the approval of the Minister, the rent receivable from the trade stalls , weekly fair meat stalls and fish stalls relating to the year under review totaling Rs. 1,727,869 had been deducted due to the Corona epidemic.	It has been informed that the non-recoverable charges had been deducted and that decision has been submitted to the Governor for approval.	In terms of the provisions of the Act the deductions should be made subject to the approval of the Minister.
(c) Other Revenue		
The sabha had failed to recover the amount of Rs. 86,750 due from 04 permanent advertisement hoardings identified by the advertisement hoarding survey conducted in January 2020.	It has been informed that action will be taken to recover the money due from the institutions expeditiously.	Action should be taken to recover revenue receivable to the Sabha

3. Operating Review.

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

3.1 Operating Inefficiencies.

Audit Observation

- (a) The Ministry of Economic Development had agreed with the Pradeshiya Sabha for the construction of the bridge 5/1 at Welikumbura Road, Raddella in the year 2013, and the Ministry of Economic Development had intervened in the finance and contract administration of the construction contract. Accordingly, the Pradeshiya Sabha had selected a contractor and entered into an agreement with the contractor.

However the Pradeshiya Sabha had not reached an agreement with the Ministry of Economic Development on how to proceed in the event of a contract dispute and the agreement entered into with the contractor did not state that the Ministry of Economic Development would intervene in the finance and administration of the construction contract. The contractor had entered into an arbitration proceedings against the Sabha demanding a sum of Rs. 5,654,599 which had not paid to the contractor on the recommendation of the engineer of the Ministry of Economic Development at the time of the payment of the contract and the relevant interest thereon from the date of 14 June 2014 and also the arbitration charges. A sum of Rs. 555,394 had been incurred on legal fees from the Sabha fund by the end of the year under review and in the future the Pradeshiya Sabha will be in a contingent liability.

Comments of the Sabha

It has been informed that, the Sabha is unable to reach an agreement on how to proceed in the event of a problem, as this project is implemented in accordance with the similar methodology islandwide with the objective of selecting and uplifting the backward Local Government Institutions

Recommendation

An agreement should be reached with include all relevant facts of the contract in entering into agreement.

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| <p>(b) Even though, the approval had been granted for the construction of the Panapola, Ambagahakanda Pantak Hydro Power plant with a capacity of 2.4 MW, the Electricity Board has confirmed that the operating company is generating 4.2 MW of electricity. Even though, the residents of the area and the “Sinharaja Sumithuro” organization had informed the Sabha about the damage caused to the environment through this project, the Sabha had failed to look into the action that exceeded the capacity and the environmental damage caused by it and act accordingly.</p> | <p>It has been informed that the construction approval for the power plant will be cancelled and the operation of the plant will be stopped immediately and if not doing so legal action will be taken.</p> | <p>Action should be taken against the company for exceeding the capacity.</p> |
| <p>(c) Even though, the approval was given at the General meeting dated 07 September 2018 for the implementation of the Kosgulana small scale hydro power project, the Sabha had informed to suspend the project immediately due to the large scale environmental damage caused by it. Nevertheless, that action had not been taken to suspend the work of the power plant even by February 2021.</p> | <p>It has been informed that steps will be taken immediately to inform by a letter and to look further and to suspend the work of this project.</p> | <p>An assessment relating to the environmental damage should be carried out and action should be taken to suspend the operation of the power plant.</p> |

3.2 Deficiencies in Contract Administration

<u>Audit Observation</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
<p>(a) An agreement had been entered into with the Kalawana North, Farmer Organization valued at Rs. 524,128 on 15 October 2020, to execute the work of Development of the Kalawana Pola premises using Sabha funds. Even though, the work under item No 02 and 04 of the estimate had been done mechanically, the labor rates had been applied for the above items of work and as such sums of Rs. 101,597 and Rs. 49,143 respectively had been overpaid. Further, the amount of soil and ABC used for the work is less than the amount paid and as such a</p>	<p>It has been informed that, the workers had to be employed because a house was located at the site of the soil excavation and the machine is used only for loading of soil and therefore EW1-001 prices had to be used and when using small scale ABC, the prices for works M1-013M prices are used and payments has been made only for 30 kilometers as transportation distance of ABC is from 53 kilometers.</p>	<p>The most appropriate economise rate should be used when preparing estimates.</p>

total sum of Rs. 206,698 had been overpaid thereon comprising Rs. 50,420 and Rs. 5,538 respectively.

(b) Payments made based on Incorrect Rates.

- (i) As per the amount of soil cut in the development of Thapassarakanda playground which executed on the Provincial Council funds, a sum of Rs. 429,468 had been overpaid due to that, the payments had been made on the rate at which soil is cut using labor instead of the soil cutting rate using machinery which was practical and economical rate to the Government. It has been informed that, the workers had to be employed because a house was located at the site of the soil excavation, therefore EW₁-001 prices had to be used. The most appropriate economise rate should be applied when preparing estimates.
- (ii) The rate to be applied in laying ABC according to the Register of Road Construction Charges (2020) for 03 works completed by the Sabha funds had been M1-012A. Nevertheless, the rate M1-013 (the rate for the ABC laying for the places where the width is less than 1.2 meters) had been applied thereon and as such a total sum of Rs. 144,356 had been over paid. It has been informed that, the M₁-012A prices are used for large scale constructions and the ABC laying for these works had been done as laying ABC layers less than 1.20 meters and compaction had been done but the motor grader had not been used and therefore ABC laying has been done under M1-013 prices. The most appropriate economies rate should be applied when preparing estimates.
- (iii) A sum of Rs. 105,635 had been over paid due to applying of STI-064 rate and STI-065 rate instead of applying STI-057 rate which is most appropriate, practical and economies rate to the Government for making shuttering for laying concrete of 07 roads constructed by the Provincial Council funds and Sabha funds. It has been informed that, very good planks should be used in concreting the roads and STI-064/065 rates should be applied thereon and that the concrete should be smooth on both sides as it may lose strength and cracking over time due to water seeping in to the concrete. The most appropriate economies rate should be utilized when preparing estimates.

4. Accountability and Good Governance

4.1 Environmental Problems

Audit Observation

A sum of Rs. 358,000 had been incurred for disposal of 1440 metric tons of solid waste during the year under review in the authoritative area of the Sabha and 07 employees and 03 vehicles had been utilised thereon. Nevertheless, the pits had been dug in the land and put the waste and closed those pits, without being followed a proper environmental friendly methodology.

Comments of the Sabha

It has been informed, that a clear land to construct a waste yard is not available for disposal of waste properly and action is being taken to obtain a land.

Recommendation

Proper waste management plan should be prepared and followed.