

Wariyapola Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Wariyapola 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 Wariyapola 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

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 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)

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.

- 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.
- 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
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(a) Value of 04 lands containing 05 acres and 02 roods received from the Divisional Secretariat under the transfer orders had not been assessed and brought to account.	It was noted down to make corrections in the year 2022.	Action should be taken to ensure accuracy in accounting.
(b) No action had been taken to capitalize 2,544 library books worth Rs. 1,000,084 that had been purchased during the year under review.		The purchase of library books should be capitalized.
(c) Fifteen lands worth Rs. 5,849,600 vested in the Sabha from the land auctions carried out during the year under review and the preceding years had not been brought to account.		The lands given to the Sabha for public purposes should be brought to account.

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| <p>(d) Seven assets of lands and buildings for which expenditure of Rs. 6,637,920 had been incurred for their development during the year under review had not been capitalized.</p> | <p>It was noted down to make corrections in the year 2022.</p> | |
| <p>(e) Four debtors balance worth Rs. 485,785 receivable for the industries and projects relating to the year under review and the preceding years had not been brought to account.</p> | | |
| <p>(f) Although the balance of the stamp duty to be received pertaining to the preceding year was Rs. 6,811,883, it had been brought to account as Rs. 4,213,292, thus understating by Rs.2,598,591.</p> | <p>It is informed that action will be taken to account for the arrears.</p> | <p>Action should be taken to ensure accuracy in accounting.</p> |
| <p>(g) Although the balance of the Tube Well Deposit Account as at the end of the year under review amounted to Rs. 241,593, it had been brought to account as Rs. 139,337, thus understating by Rs. 102,256 and the industrial security deposits valued at Rs. 3,102,977 had not been brought to account.</p> | <p>It is informed that the documents will be updated and corrected.</p> | |

1.7 Non-compliance

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

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
<p>(a) Section 219 of the Pradeshiya Sabha Act No.15 of 1987.</p>	<p>Deviating from the provisions of this section, two employees had established a society and served in the capacity of the Chairman and the Secretary of the society and having signed agreements to carry out contracts, 06 industries worth Rs.4,588,838 had been executed during the year 2021 alone.</p>	<p>An inspection in this regard will be conducted and reported to the Audit expeditiously.</p>	<p>Disciplinary action should be taken in terms of the Establishments Code regarding the officers who deviated from the Section 219 of the Act.</p>

- (b) Section 2:5 of the Public Finance Circular No.1/2021 dated 29 September 2021. Although it has been stated that the awarded contracts should be within the area of authority of the community based organization, 03 contracts worth Rs.2,228,797 outside the area of authority had been awarded to a community organization. It is stated that since any society within the relevant area did not come forward to carry out this construction, the contract had to be awarded to a community board in Wariyapola area which is situated outside the jurisdiction and registered with the Sabha. Action should be taken in accordance with the circular.

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. 14,431,413 as at 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 39,608,022.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Rates and Taxes

Audit Observation	Comment of the Sabha	Recommendation
Rates of Rs. 4,865,584 had not been recovered from 4457 assessment units by the end of the year under review and no arrangement had been made to recover the dues.	Action has been taken to issue red notices to recover the arrears.	Action should be taken to recover the arrears in time.

3. Operating Review

Performance

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 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Although tenders have been called for 23 shops at the Katupotha Multipurpose Centre, due to not taking adequate measures to obtain electricity supply, the revenue lost by the Sabha in the year 2021 was Rs. 1,753,500.	It is expected that the Sabha will be able to obtain that revenue from this year by providing water and electricity supply to the Katupotha Multipurpose Building.	Revenue should be earned by leasing out the shops owned by the Sabha.
(b) Although tenderers have been selected for the shops of the Wariyapola new shopping complex by calling for tenders, no action had been taken to recover the key money of Rs. 41,355,000 that should be recovered from 19 shops.	Although letters have been sent to the relevant parties to recover the key money, the lessees had refused the payment since the new building has not yet been nationalized.	Action should be taken to open the shops by recovering the key money.

3.2 Deficiencies in the Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) Having prepared an estimate worth Rs. 3,500,000 for the construction of vegetable and fruits stalls in the premises of the Wariyapola bus stand, an agreement had been signed with a private institute on 20 January 2020. Without being obtained an advance security relating to this project, advance of Rs. 689,808 had been paid on 29 April 2020 and the value of uncompleted work of contracted remaining 10 items was Rs.908,466.	It is informed that a performance security has not been obtained. Due to the Covid epidemic situation in the country and increase in the material cost at high rates, execution of these items of work has been delayed.	Advance should be paid by obtaining an advance security. Project should be completed in accordance with the agreements.
(b) In the examination of files and conducting of physical inspection of the second phase of the Walpola drinking water project that had been assigned to the Wariyapola Pradeshiya Sabha for implementation with a provision of Rs. 4,878,474 under the second phase of the 100 Villages and 100 Works Rural Development Programme, an advance of	* The total tender deposit amounting to Rs. 60,000 has been obtained for the performance security owing to a mistake and the officers in charge of the subjects have been informed to take measures to prevent such mistakes henceforth.	Action should be taken in accordance with the provisions of the Procurement Guidelines. The contract agreement should be followed.

Rs.874,741 had been paid without obtaining an advance payment security. Although the contractual works worth Rs. 4,308,220 should have been completed from 21 December 2021 in terms of agreements, only the works valued at Rs. 292,340 had been completed even by 17 February 2022.

* According to an inquiry made at the Financial and Policy Committee held on 18.05.2022, he stated that the work was delayed due to the economic crisis prevailed in the country and necessary arrangements will be made to complete and handover the project before 15.06.2022.