

## **Town and Four Gravets Pradeshiya Sabha - 2021**

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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 Town and Four Gravets Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Balance sheet as at 31 December 2021, Income and Expenditure Account, Cash Flow Statement for the year 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 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 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 Town and Four Gravets Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

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

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Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 Sri Lanka Public Sector Accounting Standards, 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**

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National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

(b) 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

### 1.6.1 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
The value of the 8,800,000 rupees land with an area of 03 acres, which had been prepared and assigned for the public use of the local council in the plotting of private land, was not accounted for.	Re-valuation work is being done on the land with an area of 03 acres.	The correct value of the land should be accounted for.

### 1.6.1 Unreconciled Control Accounts

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
It was observed that there were differences of Rs. 4,970,100 between the financial statements and the basic document balances for 05 items presented in the financial statements.	Appropriate action will be taken.	Action should be taken to correct the difference

## 1.7 Non-compliance

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are shown below.

<b>Reference to Laws, Rules and Regulations etc.</b>	<b>Value</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
	<b>Rs.</b>			
(a) Financial Regulations 371 of the Democratic Socialist Republic of Sri Lanka	345,520	Although it was stated that all the advances paid should be settled immediately after the completion of the work, the advances were not settled for a period of 09 months to 04 years.	Actions will be taken as soon as funds are available.	Advances should be settled as soon as the objectives are met.

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| (b) | Financial Regulations 880 Provincial Finance Circular No. PT/03/2021 dated 16 August 2021 | 115,000 | Security deposits were not collected from 18 officials who were required to deposit security money while performing the duties of the Pradeshiya Sabha. | Further action will be taken very soon. | Appropriate steps should be taken to get the security deposit. |
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**2. Financial Review**  
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**2.1 Financial Results**  
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According to the Financial Statements presented excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 44,237,824 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 33,738,878 in the preceding year.

**2.2 Revenue Administration**  
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**2.2.1 Performance in Revenue Collection**  
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**Audit Observation**  
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**Comments of the Council**  
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**Recommendation**  
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**(a) Rates and Taxes**  
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| i)  | Actions were not taken to recover Rs.22,812,086 in arrears of property taxes from 01 to 08 years.  | Kindly inform that mobile services could not be implemented in 2021 due to Covid-19.                      | Steps should be taken to recover the arrears.             |
| ii) | The council had approved the employment of a field labourer and an office assistant for tasks such as money transactions related to property taxes, issuing receipts and issuing receipts, and thus it was observed that financial frauds of Rs.3,421,402 had taken place up to the year under review. | All the functions of the council including development work are carried out by deploying a limited staff. | Arrangements should be made to assign duties to the posts |

**(b) Rent**  
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As per Section 129(2)(e) of the Local Council Act 1987, steps were not taken to formally collect business premises rent, dormitory rent, building rent, vehicle rent and market rent amounting to Rs.395,411 due on 31 December 2021.	I kindly inform you that appropriate measures will be taken to inquire and collect all outstanding amounts.	Appropriate steps should be taken to recover the arrears.
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(c) **Trade License Fee**  
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Outstanding trade license fees of Rs.98,750 had not been collected at Uppuveli Sub office, which has been existed for more than 07 years as at 31 December 2021.	The arrears will be settled as per the written off Committee recommendations.	Audit should be informed about license fees collected.
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**3. Operational Review**  
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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 Council under Section 3 of the Pradeshiya Sabha Act are shown below.

**3.1 Management Inefficiencies**  
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<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
(a) The annual (installment) payment of Rs.700,438 for the loan obtained from the Local Loan Development Fund for the construction of the office building had been completed in the year under review, but it remained in arrears according to the bank confirmations and no confirmations regarding the settlement of the arrears had been obtained from the Local Loan Development Fund.	Reminders sent on 11 July 2022.	Proofs of settlement of arrears should be obtained.
(b) Actions were not taken to settle the outstanding electricity and water charges of Rs.142,960 belonging to the period before the year under review.	The arrears have been identified and steps have been taken to settle the same with the approval of the council.	Overdue arrears should be settled.
(c) The collection of Rs.1 million collected from 16 community organizations to provide a PCR machine to the Trincomalee Hospital during the year under review, was deposited in the Employee Welfare Account and no further action was taken.	It was decided in the council meeting dated 07 June 2022 to repay the funds collected for the purchase of PCR machines and the funds were being deposited to the designated community organizations.	Actions should be taken for utilization/ payback for the respective purposes.

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| (d) | Although the lease value was reassessed after contracting to establish communication towers belonging to 03 private organizations, the outstanding amount of Rs. 3,149,072 was not received by the end of the year under review.  | Correct actions will be taken this year.   | Appropriate measures should be taken to get income.                 |
| (e) | The management of the Sabha had not obtained the approval to correct the differences amounting to Rs.678,226 in the balance of the General Deposit account and the bank of Ceylon's donation deposit account.   | The balance of Rs.647,719 in the general deposit account and due to mistakes made every year since before the year 2003, there were differences between the balance of the cash book and the year-end balance. These issues will be presented and reports will be made for the recommendations of the write-off Committee. | A system should be established to correct the mistakes of the past. |
| (f) | Forty five items that recommended to be auctioned by the Board of Survey in the year 2020, were sold in the auction by the Pradeshiya Sabha in the reviewed year and received a sum of Rs.113,500, but the cost of these items was not calculated and deducted in the accounts in the reviewed year's financial statements. | Since the cost of goods sold at auction in 2020 is not available, the auction sale value is under-accounted for.   | Cost of goods should be adjusted to the accounts.                   |
| (g) | A sum of Rs.331,000 were paid to the Survey Department for surveying land owned by the council, but the survey plans of 10 lands were not obtained.   | I would like to kindly inform you that we have taken measures to get the land plans promptly for that purpose.   | Appropriate action should be taken.                                 |
| (h) | The local government department had released Rs.01 million to this local council for the production of organic fertilizers and the expenditure had also been incurred, but no sales had taken place.  | Funds made for the production of organic fertilizers had been released and materials had been purchased to construct the fence around the land, but due to delays in the allocation of land by the Divisional Secretariat, there were delays in the implementation of this project.  | It should be used for the relevant purposes.                        |

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| (i) The management of the Sabha had not taken steps to obtain land title deeds and proof of ownership documents for the total assets of land and buildings and head office buildings amounting to Rs.168,857,613. | I kindly inform that further action regarding land transfer is being taken with the Divisional Secretariat. | Documents relating to the value presented in the financial statements should be obtained. |
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### 3.2 Operational Inefficiencies

----- <b>Audit Observation</b> -----	----- <b>Comments of the Council</b> -----	----- <b>Recommendation</b> -----
Under Section 126 of the Pradeshuya Sabha Act No. 15 of 1987, bye-laws were to be enacted to fulfill 30 main matters, but bye-laws were enacted for only 05 matters until 31 December 2021. As a result of this, the remaining 25 bye-laws were not approved, so the income received therefrom remained uncollectible.	Regarding the preparation of the by-laws, the matters drafted after the preliminary round of discussions are completed remain as by-laws. I would like to inform you that we are in the process of obtaining approval for this.	By-laws should be enacted to regulate related activities.

### 3.3 Assets Management

----- <b>Audit Observation</b> -----	----- <b>Comments of the Council</b> -----	----- <b>Recommendation</b> -----
(a) <b>Failure to perform maintenance and repairs</b> ----- Gully Bowser No. LA 0118 was not repaired.	A council decision has been taken to give this to Tambalagamuwa Pradeshiya Sabha.	Should be repaired and used for council operations.
(b) <b>Idled Assets</b> -----		
i) It was observed that in the plotting of private lands, the land with an area of one acre allocated for the common use of the Pradeshiya Sabha remained idle for more than 04 years without being used for any common/general use by the Pradeshiya Sabha.	It has been expected to use the relevant land for the use of the council in case of receiving financial assistance from non-governmental organizations to build a vehicle repair workshop and a solid waste disposal station in our Sabha.	Appropriate measures should be taken to fully utilize it.
ii) The sales center built in Uppuveli in 2018 at a cost of Rs.8,250,762 was not rented out even in the year under	The rent of the new building constructed at Uppuveli 3 <sup>rd</sup> post junction has been assessed as per	Appropriate action should be taken.

review, thereby losing an annual rent of Rs.123,000 to the council. departmental valuations.

**(c) Annual Board of Survey**

<p>-----</p> <p>It was revealed in the board of survey of 2018, that 1021 and 229 books were missing in Sambalthivu and Uppuveli libraries maintained by the council, but no action was taken.</p>	<p>Appropriate action will be taken as per financial regulations.</p>	<p>Take appropriate action as per Sabha financial regulations.</p>
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**3.4 Procurement Management**

**Audit Observation**

**Comments of the Council**

**Recommendation**

<p>-----</p> <p>According to 2.1 of the Public Finance Circular No. 01/2021 dated 29 September 2021, contracts totaling Rs. 63,735,495 were awarded to social level institutions only on the recommendations of the CDO without being given by a committee consisting of three persons nominated by the chairman of the Pradeshiya Sabha and the Divisional secretary.</p>	<p>I inform you that the instructions given by you will be followed in the future.</p>	<p>Appropriate action should be taken.</p>
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**3.5 Defects in Contract Administration**

**Audit Observation**

**Comments of the Council**

**Recommendation**

<p>-----</p> <p>It was observed that 15 project works amounting to Rs.8,907,755 for the year 2021 were to be completed in the year under review, but had not been completed.</p>	<p>Due to shortage of cement and sudden rise in prices of certain construction materials, the contractor has inquired for revised new estimates.</p>	<p>Steps should be taken to complete within the stipulated time frame.</p>
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**3.6 Human Resource Management**

**Audit Observation**

**Comments of the Council**

**Recommendation**

**(a) Employee Vacancies and Exceses**

<p>-----</p> <p>Actions have not been taken to fill 26 vacancies in the form of 21 vacancies in primary level posts and 05 vacancies in secondary level posts.</p>	<p>Steps will be taken to fill up the vacancies.</p>	<p>Appropriate action should be taken to fill up the vacancies.</p>
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#### 4. Accountability and Good Governance

##### 4.1 Presentation of Financial Statements

###### Audit Observation

Contrary to Eastern Provincial Treasury Circular No. PT/14/2021 dated 25 October 2021, the council had submitted the financial statements for the year under review on 16 March 2022 for audit. Also, the annual performance report was not submitted with the financial statements in accordance with subsection 16(2) of the National Audit Act No. 19 of 2018.

###### Comments of the Council

The financial statements were submitted on 16 March 2022 due to the delay in calculation of arrears due to financial fraud in Uppuveli School and transfers of officers.

###### Recommendation

Must be submitted on time.

##### 4.2 Internal Audit

###### Audit Observation

As stated in Provincial Government Reform Circular No. 03 dated 08 November 2005 of the Ministry of Provincial Councils and Local Government, the internal auditor of the council had not prepared an internal audit plan.

###### Comments of the Council

I inform that appropriate measures will be taken to prepare the audit plan after consulting in this regard.

###### Recommendation

Appropriate action should be taken.

##### 4.3 Audit and Management Committee

###### Audit Observation

In terms of Section 5.3 of the Management Audit Department Circular No. DMA/01-2019, the Audit and Management Committee meetings should be held at least once in a quarter, but the council had held only three committee meetings in the year under review.

###### Comments of the Council

I inform that it will be held once in a quarter in the proceeding year.

###### Recommendation

Appropriate action should be taken as per circular.

##### 4.4 Environmental Issues

###### Audit Observation

The garbage collected in the Sabha area is disposed of unsorted in the forest area and the Sabha has not taken steps to implement the proper solid waste management.

###### Comments of the Council

Where the final disposal site of solid waste is given separately to the Sabha, the classification process is carried out.

###### Recommendation

Appropriate action should be taken.

#### 4.5 Sustainable Development Goals

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**Audit Observation**  
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**Comments of the Council**  
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**Recommendation**  
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According to the Sustainable Development Objectives Act No. 19 of 2017, the council had not prepared the sustainable development plans to be achieved in the year 2030 and had not taken any further actions related to it.

According to Circular No. වි.ලේ.පොදු/2018/61 dated 23 April 2018, the sustainable development implementation plan has been prepared and approved by the council.

Appropriate action should be taken as per the circular.