

Gampaha Pradeshiya Sabha - 2021

1. Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Gampaha Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in net equity, 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 the 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 financial statements give a true and fair view of the financial position of the Gampaha Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified opinion 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 Sri Lanka Public Sector Accounting Standards for Local Authorities 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)

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

National Audit Act, No. 19 of 2018 include 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. Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with reference to the particular Standard	Comments of the Sabha	Recommendation
(a) Although, in terms of Standard No. 3.9, if there are any quantitative differences between the actual, budgeted and the values that should be presented in the previous comparative period, the reasons for them should be disclosed in a way which makes it easier to compare budgeted information in financial statements, actions had not been taken to do so.	This information will be furnished when presenting the financial statements for the year 2022.	Facts should be disclosed in the financial statements in accordance with the Public Sector Accounting Standards for Local Authorities 2017.
(b) Even though, in accordance with Standard No. 10.22(f), writing-off of receivables arising from exchange transactions as irrecoverable during the accounting period, requires the approving authority for such write-offs be disclosed in the financial statements, in respect of the Journal Note No. 26 under which a total of shop rent amounting to Rs. 1,045,124 had been written off, had not been dealt with the same manner.		

1.6.2.Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) A total sum of Rs. 605,892 of 06 items, had been accounted as deposits, which should have been accounted as revenue.	Administration expenses which were recorded as deposits in relation to 2021, will be taken into revenue by 31 December 2022	Revenue, accounted as deposits in the financial statements, should be accounted as revenue
(b) In addition to the work in Progress value amounting to Rs. 319,231,822 of roads, bridges, culverts for the previous year, the value of work done for same job for the year under review amounting to Rs. 8,498,839 had been credited to the same account and as a result, Current Liabilities balance had been overstated by Rs. 8,498,839.	These will be corrected when preparing the financial statements for the year 2022.	Should be correctly accounted for.
(c) When paying a sum of Rs. 20,592,348 for store creditors, instead of debiting the stores creditors accounts, the expense account had been debited incorrectly and when correcting this, the accumulated fund had been credited instead of crediting the expenses account which had resulted the Surplus for the year being understated by Rs.20,592,348.		

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| <p>(d) The value to be depreciated in the year 2021 for the capital grants received in the year 2020, had been Rs. 13,031,174 and though that amount should be stated as Government Transfers for non-recurring expenses under the Revenue of Comprehensive Income Statement, a sum of Rs. 11,726,122 had been stated and as a result, the Surplus for the year had been understated by Rs. 1,305,052 and the Capital Grants had been overstated by that amount. Further, due to a sum of Rs. 13,031,174 had been accounted as depreciation in the year 2020, the Accumulated Fund balance had been overstated and the Capital Grants had been understated by that amount.</p> | <p>This will be corrected when preparing the financial statements for the year 2022.</p> | <p>Should be correctly accounted for.</p> |
| <p>(e) The Depreciation value in the Comprehensive Income Statement had been under stated by Rs. 193,284,969 as at the closing date of the year under review.</p> | | |
| <p>(f) Even though, the depreciation value at the rate of 10 percent, on the balance of Roads, Bridges Culverts amounting to Rs. 1,997,297,192 as at 01 January 2021, should have been Rs. 199,729,719, as a result of a sum of Rs. 171,631,349 had been accounted by Journal No. 56, the values of Accumulated Fund and the Property Plant & Equipment had been overstated by Rs. 28,098,370, in the financial statements.</p> | <p>These information will be corrected when preparing the financial statements for the year 2022.</p> | <p>Should be correctly accounted for.</p> |

- (g) Though, Income and Expenditure, Assets and Liabilities should be accounted for on the Accrual Basis, in terms of the Regulation No. 90 relating to financial administration of the Pradeshiya Sabha, Stamp Duty and Court Fines income had been accounted for on the cash basis.
- Since the Stamp Duty Income and Court Fines Income have not been submitted on the basis of annual billing, these income had been accounted for on the Cash Basis. If, accounted for on Accrual Basis based on estimated income, it would depict a false deficit and hence, accounted for on the Cash Basis.
- Stamp Duty and Court Fines schedules should be brought in and Income should be accounted on Accrual Basis as per the Regulations relating to Financial Administration of Pradeshiya Sabha.

1.6.3. Balance Receivable and Payable

(a) Receivable Balance

Audit Observation

 The balance to be received on 540 Nos. Decentralized and Provincial Council Projects, had been Rs.181,167,226 as per the financial statements as at the end of the year under review. According to the age analysis, outstanding periods have been, from 5 to 10 years for 11 balances amounting to Rs.1,438,098, from 3 to 5 years for 83 balances amounting to Rs.5,464,170, from 1 to 3 years for 231 Balances amounting to Rs.16,808,254, and less than 1 year for 215 balances amounting to Rs.157,456,704 and actions had not been taken to recover outstanding balances.

Comments of the Sabha

 These debtor balances are the receivable amounts from decentralized and Provincial Council Projects. Amounts to be received from other institutions cannot be written off. Even though, the institutions from which amounts are due, had been informed, debtor balances exist due to delays in remitting money and no written responses being made.

Recommendation

 Outstanding balances should be recovered using a suitable methodology by analysing Capital Grant Debtor Schedules and indebtedness should be verified by re-examining the relevant files.

(b) Payable Balance

Audit Observation

Comments of the Sabha

Recommendation

As per the Creditor Schedule, a sum of Rs. 4,262,322 had been due to 25 Nos. various Government Institutions, relating to 39 balances coming from the year 2017 to the year 2021, as at the closing date of the year under review and actions had not been taken to investigate and settle those balances.

Inform that it is being under further settlement.

Actions should be taken to settle the Creditor balances.

1.7. Non- Compliances

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

Reference to Laws, Rules Regulations	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka 571 (2)	Actions had not been taken as per the relevant Financial Regulation regarding 64 Nos. expired deposits amounting to Rs.40,807,119 as at 31 December 2021	Actions will be taken to recognize as Income and settle within the year 2022.	In terms of Finance Regulations, actions should be taken regarding expired deposits as to whether to recognise as Income or to refund.
(b) Rating & Valuation Ordinance No. 30 of 1940.	Although the assessment of rates has to be done by the Valuation Department once in every 05 years, the rates had been charged based on the assessment made in the year 2002.	The new assessment activities started in 2018 and the assessment activities of the area of Henarathgoda Sub Office had been completed. Once the assessment activities	Actions should be taken to have new assessment rates and to charge revenue.

of the area of Galahitiyawa Sub Office is over, charging of rates based on the new assessment will be carried out.

- (c) Regulation No.83(ii) of Extra Ordinary Gazette No. 2155/8 of 24 December 2019 relating to Accounting for Financial Administration of Pradeshiya Sabhas in the Western Province.
- A separate advance account had not been maintained for the Employee Loans of the Pradeshiya Sabha Officers and staff, amounting to Rs.24,045,436
- Action will be taken to maintain a separate advance account for Employee Loans from the year 2023.
- A Separate Advance Account for the Employee Loans should be maintained in terms of the Regulations of the Gazette.

2. Financial Review

2.1. Financial Result

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.13,806,233 as compared with the excess of revenue over recurrent expenditure amounted to Rs.52,803,165 in the preceding year.

2.2. Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Rates and Taxes</p> <p>An Age Analysis had not been presented as at the closing date of the year under review, of the Rates receivable balance amounting to Rs.26,537,646 of Henarathgoda Sub Office and as per the Age Analysis Report of Galahitiyawa Sub Office, arrears balance over 10 years had been Rs.5,904,379, balance between 5 to 10 years had been Rs.3,257,257, balance between 3 to 5 years had been Rs.1,785,800, balance between 1 to 3 years had been Rs.1,140,000 and the balance for less than 1 year had been Rs.313,255, totalling to a sum of Rs.12,400,692 for which no action had been taken to recover.</p>	<p>Age Analysis will be presented to the Audit soon after it is prepared according to correct data.</p>	<p>Actions should be taken to recover the arrears balances.</p>
<p>(b) Stalls Rent</p> <p>Rs. 264,544 relating to 4 Stalls located in the Head Office Building and Rs. 70,400 relating to one Stalls located in the Weliveriya Public Market had been arrears for more than 05 years and Rs. 452,420 relating to 05 Stalls located in the Weliveriya Public Market and Rs. 30,450 relating to 02 Stalls located in the Head Office Building had been arrears for periods between 3 to 5 years</p>	<p>Further actions are to be taken according to the report of the Committee appointed on the instructions given by the Assistant Commissioner – Local Government - Gampaha, to investigate on the irrecoverable shop rent</p>	<p>Arrears Stalls Rent should be recovered from the shop owners or from the parties who had defaulted by identifying them.</p>

3. Human Resources Management

Staff Loan

Audit Observation

As per the Staff Loan Schedule, an arrears balance of Rs. 492,602 outstanding for more than one year, of 12 Nos. employees who got retired, deceased, and vacated office, had not been recovered even by 31 August 2022.

Comments of the Sabha

The loan Balances of Project Staff is being recovered from the guarantors.

Recommendation

Actions should be taken to recover loan balances.

4. Accountability and Good Governance

Sustainable Development Goals

Audit Observation

22 out of 70 activities having an estimated value of Rs. 5,542,000, which had been identified as sustainable development goals of the Sabha, had not been implemented during the current year.

Comments of the Sabha

Even though it was planned to implement the programs in the year 2022, which were not implemented in that year due to Covid epidemic prevailed in the country, actions are being taken to implement, drawing the attention to the National Budget Circular 03/2022 issued on 26 April 2022 for the control of Government Expenses.

Recommendation

Provisions should be made identifying the correct need and expenses to be incurred by having revised estimates approved, according to the need.