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The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

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## PART IV (A): PROVINCIAL COUNCILS

### Provincial Council Notifications

#### Western Province Provincial Council

I, Wijepala Sri Narayana Wasala Bandaranayaka Mohottalage Seetha Kumari Arabepola, as the Governor of Western Province, in terms of powers vested upon me, by Section 171 and 184 of Pradeshiya Sabha Act, No.15 of 1987; that shall be read with the Section 02 of the Provincial Council Act, No.12 of 1989 (Incidental Provisions) hereby enact “Rules on Accounting Related to the Financial Administration of the Pradeshiya Sabha” with regard to the Pradeshiya Sabhas of Western Province.

W.S.N.W.B.M. SEETHA KUMARI ARAMBEPOLA,  
Governor,  
Western Province.

On 23rd of December 2019,  
Secretariat of the Governor,  
Provincial Council Office Complex ,  
Denzil Kobbekaduwa Mawatha ,  
Battaramulla,



### Rules

1. These rules are enacted to provide provisions to repeal the rules of Pradeshiya Sabha -1988 (Finance and Administration) formulated by the Minister of Public Administration, Provincial Councils and Home Affairs and included in the *Extraordinary Gazette* of the Democratic Socialist Republic of Sri Lanka No.554/5 and dated 17<sup>th</sup> of April 1989, to make the accounting affairs of Pradeshiya Sabha comply with Sri Lanka Public Sector Accounting Standards for Local Government Authorities and to provide for the financial administration of Pradeshiya Sabha.
2. These rules are referred as the “Rules on Accounting related to the Financial Administration of the Pradeshiya Sabha”

### Chapter I

#### General

3. Any payment from the fund of the Pradeshiya Sabha or collection of income relevant to the fund cannot be made other than in accordance with the provisions of the applicable written law thereto.
4. The financial year of the Pradeshiya Sabha commences on 01<sup>st</sup> of January and ends on 31<sup>st</sup> of December each year.
5.
  - (i) Chairman of the Pradeshiya Sabha shall be the Chief Accounting Officer of the Pradeshiya Sabha and he shall be directly responsible for the following factors.
    - A. Obtaining the decisions regarding the matters to be decided by the Sabha to execute powers, duties and functions delegated to the Pradeshiya Sabha by the written law.
    - B. Taking measures to immediately implement the decisions regarding the matters for which the power has been granted by a certain written law determined by the Sabha.
    - C. Properly discharge the functions and responsibilities assigned to the Chairman by the law or on behalf of the Sabha.
    - D. Delegating and assigning powers and functions duly to the staff of the Sabha and ensuring that the powers and functions entrusted to them are properly carried out.
  - (ii) Secretary of the Pradeshiya Sabha shall be the relevant Accounting Officer of the Pradeshiya Sabha Fund.
6. Conducting the affairs of the Sabha complying with a certain written law and procedures mentioned in the written law with a proper financial management shall be a duty of the Chairman and the Secretary.
7. Where the Sabha has granted power for an illegal payment, Chairman, as the Chief Accounting Officer shall not made the relevant expenditure and where a loss is caused to the fund of the Sabha either due to the negligence or misconduct, Chairman and the Secretary shall take measures to levy it identifying the responsible parties for the relevant loss.
8. Submission of Accounts of the Fund of the Sabha shall be as provided for further by these rules and the account for each financial year shall be submitted to the Auditor General on or before twenty eighth (28<sup>th</sup>) of February of the succeeding financial year having prepared it in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.
9. The Chief Accounting Officer and the Accounting Officer shall act to ensure the compliance of Secretary and the Staff of the Sabha to relevant written law and the Annual Budget on the subjects of security of the Fund, the collection of revenue for the Fund, and the expenditure of the revenues collected.
10. The Chief Accounting Officer and the Accounting Officer shall, respectively, ensure that the financial and accounting operations and management of the Sabha are maintained in accordance with the general supervision and management of the Chairman and Secretary in accordance with the provisions of the applicable written law.

11. It shall be the duty of the Chairman and the Secretary to ensure that, after compliance with the provisions of the written law and where there is no provision in the Annual Budget, there shall be no obligations with any second party regarding any expenditure.
12. Chairman shall ensure the under mentioned particulars in the event of financial management.
  - (i) Proper management of income and expenditure in the Chief Secretariat and the Sub Offices of the Sabha,
  - (ii) The Chairman has properly planned the financial activities of the Pradeshiya Sabha by categorizing the expenditure according to the budgeted programmes and has applied the provisions of the Government Financial Regulations or the Financial Management Rules of each Provincial Council adequately.
  - (iii) That the Secretary has adequately prepared and implemented the internal programmes with regard to the revenue collection of the Sabha.
  - (iv) That a proper management mechanism has been developed to ensure that the updated information is being presented.
  - (v) Ensure that the programmes included in the Development Plan and Annual Budget are successfully implemented and thereby accrued benefits are proportional with expenditure.
  - (vi.) Ensuring that the relevant officers have taken measures to levy the revenue that have to be levied from the employees during the specific time period as per the Budget and that has been appropriately accounted.
  - (vii) Proper conducting of the internal audit process in the Pradeshiya Sabha
  - (viii) Have been taken necessary measures for the security of all the movable and immovable assets of Pradeshiya Sabha
  - (ix) Ensure that bank reconciliation statements are prepared prior to the 15<sup>th</sup> of the next month at the completion of a month.
  - (x) Ensure that necessary insurance measures have been taken in respect of other valuables, including carrying of cash in transit.
  - (xi) Satisfaction that the required bail has been obtained with respect to the officers for whom the Guarantee Ordinance is relevant including the officers related to finance and storing.
  - (xii) Preparing and submitting the Annual Development Plan in relation to the four-year Development Plan and obtaining the approval of the Sabha.
13. Where any officer bearer, officer or employee of any Pradeshiya Sabha has a relationship to any loss or damage done to a Pradeshiya Sabha or its Fund, the Chairman shall appoint a Board of Inquiry consisted of three competent officers to identify the loss or damage and to determine the relevant parties responsible for it.
14. The Chairman shall act to recover the damage, loss from the persons responsible when the report of a Board of Inquiry appointed under the above Section is presented to him.
15. In the event of an inquiry conducted under Section 13 above, if it is revealed that any acts which may affect the rights of the Government, Provincial Council or Pradeshiya Sabha have been done by the persons responsible for a misconduct or a breach of duty in respect of any loss, damage, it shall be reported to the Disciplinary Authority to take appropriate disciplinary actions.
16. Where the value of any loss or damage identified under section 14 above, or any portion thereof cannot not be recovered under the lawful action from the party or parties who were identified as liable, or the amount to be

recovered, in such manner that can be neglected, under the written law, the Chairman can make a motion to the Sabha to treat the relevant amount as an amount that cannot be recovered to the Pradeshiya Sabha.

17. If a Pradeshiya Sabha operates Sub Offices, it is the responsibility of all officers in charge of the Sub Office and all its officers to ensure that the following measures are taken to maintain the financial activities relevant thereto.
  - (i) Ensure that all functions entrusted to them are carried out promptly and in accordance with the written law and in accordance with the decisions taken by the Sabha relevant thereto.
  - (ii) Taking action to recover all the revenue that should be accrued to the Pradeshiya Sabha Fund through the areas of sub office as specified in the written law.
  - (iii) Taking action to maintain all documents and information properly
  - (iv) Obtaining and maintaining Insurance Coverage for Property matters affiliated with the office for which the General Insurance is obtained.
  - (v) Maintaining a petty cash imprest and imprests for which the valuation is determined by the Sabha for the Sub Office.
  - (vi) Reporting to the Head Office about the daily reports, monthly reports and quarterly reports pertaining to the sub office according to the Sri Lanka Government Accounting Standards for Local Authorities.
  - (vii) Protecting the safety of all assets related to the jurisdiction and sub office and insuring them on a report obtained having assessed the assets that shall be insured.
  - (viii) Maintain all information relating to the Head Office and Sub Office, in accordance with the provisions of the Right to Information Act, No.12 of 2016, and maintaining information indexes and progress information.
18. The Secretary shall monitor whether the proceedings are conducted in accordance with the provisions of section 17 above and all the information related to the Head Office in maintaining information indexes and progress information in accordance with the provisions of the Right to Information Act, No.12 of 2016.
19. The Chairman shall provide necessary provisions, where an Investigation Officer or any other officer for whom the power has been delegated by the Commissioner of Local Government is requesting information on Fund of the Pradeshiya Sabha or any other information, information relating to the investigation conducted in respect of the Pradeshiya Sabha or an office bearer, officer thereof.
20. The Chairman or the Secretary of the Sabha shall act promptly to answer and furnish information relating to any matter which has been forwarded by Auditor General, Minister or the Commissioner of Local Government or forwarded to the Chairman or Secretary or inquired by the Chairman or Secretary.
21. The Chairman shall take all necessary steps to maintain the internal audit procedures of the Pradeshiya Sabha in accordance with the National Audit Act, No. 19 of 2019.
22. In the presence of an amount of money which cannot be legally recovered by Pradeshiya Sabha or an income which is insufficient to be levied causing relinquishment during a certain financial year, a proposal shall be submitted by the Chairman enabling the Sabha to decide whether such sum of money is not to be levied to the Pradeshiya Sabha, within that financial year or six months prior to the end of the successive financial year.
23. The Chairman shall take all necessary steps to maintain any machinery, vehicle or any other property of the Pradeshiya Sabha without leading them to under utilization and to maintain such property with a proper maintenance and repairs.
24. In the event of taking a decision, an action, or not doing relating to any matter not resulting under these Rules or not covered by the Rules, the Chairman or any officer in charge of the Pradeshiya Sabha shall make the Financial Regulations of the government or Provincial Financial Rules applicable as the case may be.

25. Any gift or donation awarded to the Chairman, Vice Chairman of the Pradeshiya Sabha, or to any other Councilor, Secretary or any other official having been considered as a representative, officer of the Local Authority, shall be treated as an offering made to the Pradeshiya Sabha.
26. In the current year, the Chairman shall prepare a budget for the coming year for a Pradeshiya Sabha having consulted the Committee in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities and in accordance with provisions provided hereinafter and in a format prescribed by the Commissioner of Local Government.
27. The matters shall be completed in order to deem the Budget as duly passed by the Sabha as specified in the written law before the commencement of the financial year relating to the budget presented by the Chairman.
28. After the budget is passed by the Sabha, certified copies thereof shall be directed to the Commissioner of Local Government, the Assistant Commissioner of the District Local Government and the Auditor General.
29. The Chairman may, at any time during the financial year, prepare the Supplementary Budget and submit it to the Sabha for approval in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities with respect to additional revenue. However when a Pradeshiya Sabha submits a Supplementary Budget for the depreciating provisions, there shall be no requirement to comply with an income.

Conversely, where a Pradeshiya Sabha submits a supplementary budget for depreciation provision, there shall be no need for corresponding for an income.

30. The General Council shall not consider any budget submitted to the Sabha or money of the supplementary budget till the Committee considers in that regard and makes recommendations.
31. In the event that the provision allocated to any expenditure or any subject by the budget or supplementary budget is insufficient, the Chairman may make necessary provisions by way of provisions under any other subject.
32. A Budget or any supplementary Budget that is duly recognized by the Sabha of a Pradeshiya Sabha shall be made known to the public.
33. There shall be a fund, for a Pradeshiya Sabha subject to the limitations and provisions set forth in the Basic Law for a Pradeshiya Sabha.
34. All funds accrued on behalf of the Pradeshiya Sabha shall be maintained in accounts as to the fund under the banks approved by the Minister of Finance.
35. The signing of cheques and drafts which are under the accounts of the Pradeshiya Sabha fund shall be done by two officers of the Pradeshiya Sabha as authorized by the Basic Law.
36. The specimen signatures of the officers who shall sign the cheques and drafts which are under the accounts of the fund of the Pradeshiya Sabha shall be certified by the Chief Accounting Officer of Local Government Institutions and forwarded to the respective banks.
37. The time period in which the transactions are made in the Pradeshiya Sabha shall be as determined by the Sabha.
38. The money charged on behalf of the Pradeshiya Sabha fund should be banked on a daily basis unless otherwise authorized by the Sabha.
39. In case of returning of cheques which are for making the payments by cheques for the fund of the Pradeshiya Sabha, it shall be prescribed to the payee to pay the relevant value in cash.
40. Maintenance of accounts related to the Pradeshiya Sabha fund and accounting related thereto including incidental matters relevant thereto shall be always done in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities and as mentioned hereinafter.

41. The Accounting Officer shall take all necessary steps to ensure that all audit queries submitted to the Pradeshiya Sabha are answered promptly during the time mentioned in the respective inquiry.
42. All property maintained by the Pradeshiya Sabha shall be inventoried and the inventory prepared accordingly to the format, if the Commissioner of Local Government prescribes a format for it, having conducted a property survey at the end of each financial year in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities shall be included in the list and updated.
43. If there are recommendations that any items to be removed from use under the Property Survey Board Report, the Chairman shall submit relevant proposals to the General Council enabling to take a decision on the sale of the items to be auctioned and the destruction of the items to be destructed by 31<sup>st</sup> of January of the following financial year and the final report shall be submitted before fifteenth 15<sup>th</sup> of February.
44. Copies of Survey Board Reports shall be submitted to the Auditor General, Commissioner of Local Government and District Assistant Commissioner of Local Government.
45. The composition of a Board of Surveys appointed on the property of a Pradeshiya Sabha shall include an officer representing the Assistant Commissioner of the District Local Government and the number of Survey Boards Committee shall be determined by the Secretary.
46. Each Board of Surveys shall be appointed by the Secretary and the task shall be completed within one month from the date of appointment.
47. After purchasing the storage materials, such shall be documented immediately and the date and number of the payment voucher relevant to the purchase should be marked in a corresponding manner.
48. No storage material shall be issued without the issuance of an authorized officer, and at the end of each financial year; a survey of storage materials shall be carried out under a Board of Survey described under these rules and a report shall be obtained.

## Chapter ii

### Fund of the Pradeshiya Sabha and Payments made to the Fund of the Pradeshiya Sabha

49. Regarding any payment made to the Fund of the Pradeshiya Sabha; a receipt shall be issued whenever possible, in accordance with the format prescribed by the Commissioner of Local Government in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities. However, in the event of any statutory body authorized by the Pradeshiya Sabha to act on a certain agreement with the relevant Pradeshiya Sabha or a company operating under the Companies Act, No. 07 of 2007, a bank or any other financial institution approved by the Monetary Board of the Central Bank acts to receive money on behalf of the Fund of the Pradeshiya Sabha as a payment to the fund of the Pradeshiya Sabha, a receipt issued by a such institution, either automatically or in action, for the receipt of such money, shall be treated as equal to a receipt issued by Pradeshiya Sabha for that purpose.
50. In the event of a certain statutory body, a company operating under the Companies Act, No. 07 of 2007, a bank or any other financial institution approved by the Monetary Board of the Central Bank receives money on behalf of the Pradeshiya Sabha as mentioned in above Section (49), all such matters, including debits to the Pradeshiya Sabha fund, shall be in accordance with the agreements entered into with the Pradeshiya Sabha and the relevant institution.
51. A receipt relating to the specimen referred to in paragraph 49 above must be completed in four copies at all times when a cash receipt is issued. Receipt of money shall be signed by the recipient to confirm the receipt of the payment.
52. All stipellate books shall be in the custody of an authorized officer specifically for this purpose and the Secretary of the Pradeshiya Sabha shall be personally responsible for its security.

53. It is the duty of the Secretary to ensure the safety of all stipellate books, receipts and related documents keeping such in compliance with the Right to Information Act.
54. An institution that entered into agreement with the Pradeshiya Sabha under the permission to accept money for the Pradeshiya Sabha fund shall review the reports of the transfer of the money levied to the Pradeshiya Sabha to the fund of the Pradeshiya Sabha in accordance with the agreement to the General Council in the successive months.
55. In respect of payments made to the Pradeshiya Sabha Fund, the daily receipt analysis shall be prepared in accordance with the Sri Lanka Public Accounting Standards for Local Authorities in accordance with the format prescribed by the Commissioner of Local Government and the receipts under sub offices shall be mentioned separately.
56. A monthly analysis of the consolidated expenditure shall be prepared and submitted to the Accounting Officer in accordance with the format prescribed by the Commissioner of Local Government in respect of Sri Lanka Public Accounting Standards for Local Authorities on expenditure from the Fund of the Pradeshiya Sabha.
57. The reports of arrears of income under self-generated income for each calendar month shall be prepared at the Head Office and sub office level as prescribed by the Commissioner of Local Government in accordance with the Sri Lanka State Accounting Standards for Local Authorities and a summary report of it shall be submitted to the Secretary of the Pradeshiya Sabha.
58. The Secretary shall ensure that at the end of each financial year only the outstanding balance that can be levied from the balances of arrears due with respect to the of Assessment tax and taxes, fees and rentals including other income, has been brought forward.
59. The maximum amount of the petty cash imprest to be maintained under the Fund of the Pradeshiya Sabha shall be determined by the Sabha in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.
60. The release of advances in respect of the fund of Pradeshiya Sabha shall always be subject to a maximum of Rs. 100,000 to an officer in Staff Grade according to the estimate thereof.
61. However, considering the composition of the staff of the relevant Pradeshiya Sabha it shall be lawful to release to the non-staff officer an advance of not more than Rs. 25,000 based on the relevant estimate.
62. The Chairman of a Pradeshiya Sabha shall get a survey carried out by authorized officers and supporters for whom the authority has been specifically delegated to identify the properties that are sources of income located within the jurisdiction of the Pradeshiya Sabha for the current year for the fund of the Pradeshiya Sabha and to submit the relevant reports thereof prior to the 31<sup>st</sup> of March each year.

### Chapter iii

#### Payments to be made by the Fund of the Pradeshiya Sabha

63. Payment of miscellaneous payments other than the reimbursement of travel expenses made by the Fund of the Pradeshiya Sabha shall be paid by a voucher in the format prescribed by the Commissioner of Local Government in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities and as provisions provided in these Rules hereinafter.
64. It shall be noted that the authorization for expenditure on a payment voucher in respect of a Pradeshiya Sabha fund has been done in accordance with the provisions in the Basic Law and the approval of the expenditure relevant to the voucher shall be done by the Chairman and the certification must be done by the Secretary.
65. Each voucher shall state the convention of the Sabha that authorized the expenditure or the decision of the Committee for which such authority is delegated by the Sabha to grant the authority or the authorized officer shall state how the authority was granted.

66. The voucher shall be prepared by the person responsible for the service and the voucher shall be checked by an officer authorized to do so.
67. Service rendered shall be clearly described in each voucher and it shall be signed by the inspecting officer having been satisfied that all the relevant information is included accurately.
68. The value of the voucher shall be stated in both numbers and letters.
69. No mention of any voucher shall be deleted or distorted, and if corrections are required, it shall be apparently cut and initialled.
70. Confirmations pertaining to each voucher shall be included as post annexure.
71. Where materials are provided or performing a task under an agreement or contract, a certificate that the relevant payment is in accordance with the conditions of the agreement or contract and if the task has been performed, a certificate that proves the relevant tasks have been accomplished accordingly shall be annexed to the relevant voucher.
72. In the case of a voucher for payment of final payment or withholding of money, the certificate issued by the officer in charge of the relevant work shall be accompanied by the voucher to ensure that the work has been done properly and appropriately.
73. In the case of vouchers relevant to the receipt of storage materials, it shall be confirmed through a certificate that such storage materials were received and they have been included in the inventory and the stock book.
74. The authorized person shall certify only one copy of any payroll, voucher or any other document which is to approve a certain payment, and whenever additional copies are necessary, such shall be marked as “copies”

#### **Salaries for the Staff of Local Authorities**

75. In the event of paying salaries relating to an officer and employees who are employed in a permanent pensionable post of the Provincial Public Service pertaining to the Local Government Institution or an officer or employees that works under the membership of Employees’ Provident Fund, provisions of the Establishments Code, Procedural Rules of the relevant Provincial Council, and other directives that are made applicable to the province by the Provincial Governors and other directions given pertaining to the province shall be applied.
76. Conditions of employment shall be applicable in respect of any employee who is not in the relevant Provincial Public Service yet employed in the service of a Local Government Institution. In relation to that, salaries and other allowances shall be expenditure to the fund of the Local Government Institution.
77. Payment of salaries of officers and employees of the Provincial Council Public Service of the Provincial Council in respect of the Local Government Institution shall be paid from the respective Fund of the Pradeshiya Sabha and such amount should be reimbursed in accordance with the rules applicable to the reimbursement of Public Salaries.
78. The Local Authorities shall maintain a salary register containing information relevant to the salaries of all salaried employees of the Pradeshiya Sabha in accordance with the policies of Sri Lanka Public Accounts Committee.
79. An officer, employee serving in a post in the Provincial Public Service in respect of a Pradeshiya Sabha requesting under the due vouchers, may obtain traveling expenses related to the service rendered by the officer, holiday pay salary for holiday salary in compliance with the provisions of the Establishments Code or the procedural rules of the Provincial Public Service of the Western Province.
80. The provisions of the Provincial Council Pension Act, No. 17 of 1993 with the provisions of the Pension Minute shall apply in respect of all officers and employees of the respective Provincial Public Service who are employed in a Local Government Institution and regarding the employees without the entitlement for pension, such employees shall obtain the membership of the Employees’ Provident Fund.



81. However, the provisions of this section shall not be an obstruction for a person who has been entitled to a pension by the Local Government Institution by the effective date of these rules under the Pension-by-laws.

#### **Loans and Investments from the Council Fund**

82. If there is an excess amount of money over the anticipated services of the Pradeshiya Sabha, such may be invested in accordance with the provisions mentioned in the Pradeshiya Sabha Act, No.15 of 1887 and as determined by the Sabha.
83. A register of loans repayment of loans and loans made by the Pradeshiya Sabha fund shall be maintained in accordance with the Sri Lanka Public Sector Accounting Standard for Local Authorities and in accordance with the provisions mentioned hereinafter according to the format prescribed by the Commissioner of Local Government.
- (ii). A separate Advance Account for employees' Loans Payable to officers and employees of Pradeshiya Sabha shall be maintained as a General Fund account.

### **Chapter IV**

#### **Application of Sri Lanka Government Accounting Standards to Pradeshiya Sabha**

##### **Maintenance of accounts and financial statements by Pradeshiya Sabha**

84. A Pradeshiya Sabha shall maintain its accounts and prepare financial statements in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

##### **Objectives and relevant principles in preparation of financial statements of Pradeshiya Sabha**

85. When a Pradeshiya Sabha submits its financial statement, the relevant purpose thereof is, providing the financial statement information approved by the Pradeshiya Sabha to anyone who refers the Financial Statement in a useful way.
86. Under these rules, the definition of assets, liabilities and net assets or equity, in relation to the Pradeshiya Sabha, shall be considered as follows;
- (i) a present economic resource controlled by a Pradeshiya Sabha as a result of past events, shall be an asset of the Pradeshiya Sabha;
- (ii) present liability of Pradeshiya Sabha to transfer an economic resource as a result of past events is a liability.
- (iii) After deducting all liabilities from the Pradeshiya Sabha, the ownership of the residual assets shall be the net asset or equity of the Pradeshiya Sabha.
87. The "Income" of a Pradeshiya Sabha is an increase of economic benefits in the form of reducing liabilities or an inflow that results in enhancement of net assets otherwise equity except things that are related to contributions done by the Government or Western Provincial Council.
88. "Expenses of a Pradeshiya Sabha" is a decrease of economic benefits in the form of creating liabilities and reducing assets or an outflow that results in decrease of net assets otherwise equity during a specified period of time other than those relating to distributions to the Pradeshiya Sabha as capital contributions.
89. For a financial statement, a Pradeshiya Sabha shall identify the items that meet the following criteria for the definition of income and expenditure of an asset or liability:

- (i) it is probable that any future economic benefit associated with the item will flow to or from the Pradeshiya Sabha; and
- (ii) the item has a cost or value that can be measured reliably.

90. A Pradeshiya Sabha shall prepare its financial statements, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

#### **Presentation of Financial Statements by a Pradeshiya Sabha**

- 91. The presentation of a financial statement by a Pradeshiya Sabha shall be subject to the provisions mentioned in the Basic Law.
- 92. In each financial statement presented by a Pradeshiya Sabha, financial position of the Pradeshiya Sabha and financial performance shall be presented fairly and variations of the financial statements, changes in the equity and notes incidental thereto shall be disclosed.
- 93. A financial statement passed by a Pradeshiya Sabha, shall include a declaration that the financial statement has been prepared in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.
- 94.
  - (i) The Chairman and the administration of the Pradeshiya Sabha shall always ensure the ability of continuing the going concern of the financial statement passed by the Pradeshiya Sabha. Similarly, considering the going concern of the Pradeshiya Sabha, the annual financial statement shall be prepared assessing it to the future without limiting it to an annual basis. The Pradeshiya Sabha shall disclose the matters lead to circumstances of the suspicion or uncertainty of acting under the financial statements approved by the Pradeshiya Sabha.
  - (ii) The going concern of the financial Statement passed by a Pradeshiya Sabha shall be ensured by the Chairman, Secretary including a specific board which is for it.
- 95. After a considerable change in the nature of operations by a Pradeshiya Sabha in accordance with Sri Lanka's Public Accounting Standards for Local Authorities or unless otherwise noted a presentation or classification of the items in another way, in the event of reviewing the annual financial statement; presentation or classification of items shall be maintained similarly for the following year;
- 96. As per the Sri Lanka Government Accounting Standards for Local Authorities, there shall be values for the financial statement for the current year and comparable information relevant to the previous year shall be mentioned in a balanced manner.
- 97. Budgetary information in a budget prepared by a Pradeshiya Sabha as per the principles of identification and measuring which are under the Sri Lanka Public Sector Accounting Standards for Local Authorities for the relevant financial year; shall be presented in the financial statements for the relevant period.
- 98. Budgetary information not included in a budget prepared by a Pradeshiya Sabha as per the principles of identification and measuring which are under the Sri Lanka Public Sector Accounting Standards for Local Authorities for the relevant financial year; shall not be presented in the financial statements for the relevant period.
- 99. A Pradeshiya Sabha that presented budgetary information in financial statements;
  - (i) Following values shall be presented separately in columns or rows for the ease of comparison:
    - (a) Actual;
    - (b) Budgeted and;
    - (c) Actual of previous comparative period.

- (ii) If changed, if different, presenting the first and final budget in separate columns and
- (iii) Disclose the reasons for any substantial differences between the values presented for the row items in the notes

### **Materiality and Aggregation**

- 100. Information shall be considered as material if its omission or misstatement could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements.
- 101. If the effect of doing so would not be material, there shall not be a requirement of this Standard.
- 102. The materiality of similar items shall be confirmed to the Pradeshiya Sabha and if they are immaterial its dissimilar nature shall be confirmed to the Pradeshiya Sabha.

### **Complete Set of Financial Statement**

- 103. A complete set of financial statement kit relevant for a Pradeshiya Sabha should include all of the following:
  - (i) A statement of assets and liabilities;
  - (ii) An extensive income statement;
  - (iii) A statement on variation of net assets/equity;
  - (iv) A Cash Flow Statement;
  - (v) Significant accounting principles and summarized notes on other explanatory information

### **Identification of Financial Statements**

- 104. A Pradeshiya Sabha shall clearly identify each of the financial statements (including the notes) and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:
  - (i) the name of the reporting entity and any change in its name since the end of the preceding reporting period;
  - (ii) the date of the end of the reporting period and the period covered by the financial statements;
  - (iii) the currency in which the financial statements are presented; and
  - (iv) the multiples of the number of currency units (such as Rs. '000s), if any, at which amounts are presented in the financial statements.
- 105. A Pradeshiya Sabha shall disclose the following in the relevant notes of the financial Statement:
  - (a) Legal form of the Pradeshiya Sabha, region where its authority is present, the province in which the region is present; and the address of its Head Office; and
  - (b) A description of the nature of the Pradeshiya Sabha's operations and its principal activities.

### **Statement of assets and liabilities**

106. A statement of the assets, liabilities and net assets / equity of the Pradeshiya Sabha that exists on the last day of the reporting period shall be submitted.

### **Current/non-current distinction**

107. A Pradeshiya Sabha shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of assets and liabilities.
108. A Pradeshiya Sabha shall classify an asset as current when:
- (i) it expects to realise the asset, or intends to consume, sell or distribute it, in the Pradeshiya Sabha's normal operating cycle;
  - (ii) it holds the asset primarily for the purpose of trading;
  - (iii) it expects to realize the asset within twelve months after the reporting date; or
  - (iv) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.
109. A Pradeshiya Sabha shall classify all other assets as non-current. When Pradeshiya Sabha's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.
110. At following occasions, a liability of a Pradeshiya Sabha shall be classified as current
- (a) it expects to settle the liability in the Pradeshiya Sabha's normal operating cycle;
  - (b) the liability is due to be settled within twelve months after the reporting date; or
  - (c) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
111. A Pradeshiya Sabha should classify all other liabilities as non-current

### **Information to be presented either in the statement of assets and liabilities or in the notes**

112. An entity shall disclose, either in the statement of assets and liabilities or in the notes, the following sub classifications of the line items presented:
- (a) property, plant and equipment in classifications appropriate to the entity;
  - (b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed;
  - (c) inventories, showing separately amounts of inventories:
    - (i) held for sale in the ordinary course of business ;
    - (ii) in the process of production for such sale
    - (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services; and
  - (d) Trade and other payables, showing separately payables to trade suppliers, payables to related parties, deferred income and accruals;

- (e) provisions, showing separately provisions for employee benefits and other items; and
- (f) Classes of net assets/equity, such as unidentified Capital Expenditure Grant in Contributed Capital Excess / Deficiency and Cumulative Excess / Deficiency

113. A description of all accumulations that include net assets / equity shall be disclosed by Pradeshiya Sabha, either in the statement of assets and liabilities or in the notes.

### **Comprehensive Income Statement**

114. When other comprehensive income is consisted in the excess or deficiency during the reporting period and income and expenditure items identified when determining the other comprehensive incomes in the Comprehensive Income Statement, such identified income and expenditure items shall be submitted by the Pradeshiya Sabha in accordance with the Sri Lanka Accounting Standards.
115. The Pradeshiya Sabha shall submit an analysis of the expenditure using a classification based on the function of expenditure of the Pradeshiya Sabha. Examples of work-based aggregation of costs include administrative, health, infrastructure maintenance, public utility services, and welfare. Pradeshiya Sabha shall not present or describe income or expenditure items as “Extraordinary Items” in financial Statements.

### **Statement of Cash Flows**

#### **Cash equivalents**

116. Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings.

#### **Information to be presented in the statement of cash flows**

117. A Pradeshiya Sabha shall present a statement of cash flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities in accordance with the Sri Lanka Public Accounts Standards.

#### **Operating Activities**

118. “Operating activities” are the recurrent activities of the Pradeshiya Sabha. Accordingly, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of excess or deficiency. Some transactions, such as the sale of an item of plant by a manufacturing Pradeshiya Sabha, may give rise to a gain or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

#### **Investing activities**

119. Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

#### **Financing activities**

120. Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of a Pradeshiya Sabha.

### **Reporting cash flows from operating activities**

121. A Pradeshiya Sabha shall present cash flows from operating activities using the indirect method, whereby excess or deficiency is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.
122. The net cash flow from operating activities is determined by adjusting excess or deficiency for the effects of:
- (i) changes during the period in inventories and operating receivables and payables;
  - (ii) non-cash items such as depreciation, provisions, accrued income (or expenses) not yet received (or unpaid) in cash, and unrealized foreign currency gains and losses; and
  - (iii) All other items for which the cash effects relate to investing or financing;
  - (iv) Cross notes receipts and payments.
123. Followings shall be stated in the notes:
- (i) Present information about the basis of preparation of the financial statements and the specific accounting policies used;
  - (ii) Disclose the information required by this standard that is not presented elsewhere in the financial statements; and
  - (iii) Provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.
124. A Pradeshiya Sabha shall, as far as practicable, present the notes in a systematic manner. A Pradeshiya Sabha shall cross-reference each item in the financial statements to any related information in the notes.
125. A systematic order for presenting the notes means;
- (i) A statement that the financial statements have been prepared in compliance with Sri Lanka Public Accounting Standards;
  - (ii) A summary of significant accounting policies applied;
  - (iii) Supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
  - (iv) Any other disclosures.

### **Disclosure of Accounting Policies**

126. An entity shall disclose the following in the summary of significant accounting policies:
- (i) The measurement basis (or bases) used in preparing the financial statements; and
  - (ii) The other accounting policies used that are relevant to an understanding of the financial statements.

### ***Accounting Policies, Estimates and Errors***

#### **Selection and Application of Accounting Policies**

127. Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. A Pradeshiya Sabha shall select and apply its accounting policies consistently for similar transactions, other events and conditions.

### **Changes in Accounting Policies**

128. A Pradeshiya Sabha shall change an accounting policy only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Pradeshiya Sabha's financial position, or financial performance. Therefore, changes in accounting policies shall be generally rare.
129. The application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material is not treated as a change in an accounting policy.

### **Applying changes in Accounting Policies**

130. A Pradeshiya Sabha shall present effect of changes in accounting policy relating to prior periods in the statement of changing Net asset/equity as an item which is not recognized in determining excess or deficiency of the reporting period, but recognized in determining the excess or deficiency brought forward.

### **Changes in accounting estimates**

131. A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
132. Examples of changes in accounting estimate can be considered as follows:
- (a) a change in the method of depreciating an item of property, plant and equipment from a reducing balance method to a straight line method to reflect a revised assessment of the pattern of consumption of benefits of the asset; and
  - (b) The re-estimate of useful life of an item of property, plant and equipment.
133. A Pradeshiya Sabha shall recognize the effect of a change in an accounting estimate, prospectively by including it in excess or deficiency in:
- (a) the period of the change, if the change affects that period only; or
  - (b) the period of the change and future periods, if the change affects both.
134. To the extent that a change in an accounting estimate gives rise to changes in assets or liabilities, the entity shall recognize it by adjusting the carrying amount of the related asset or liability in the period of the change.

### **Correction of Prior Period Errors**

135. Prior period errors are omissions from, and misstatements in the Pradeshiya Sabha's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
- (a) was available when financial statements for those periods were authorized for issue; and
  - (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
136. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

137. A Pradeshiya Sabha shall present effect of errors relating to prior periods in the statement of Changes of Equity and retained earnings as an item which is not recognized in determining excess or deficiency of the reporting period, but recognized in determining the retained earnings brought forward.

#### **Disclosure of a Change in Accounting Policy**

138. When a change in accounting policy has an effect on the current period or any prior period, a Pradeshiya Sabha shall disclose the following:
- (i) the nature of the change in accounting policy;
  - (ii) the reasons why applying the new accounting policy provides reliable and more relevant information;
  - (iii) to the extent practicable, the amount of the adjustment for the excess and deficiency:
    - (a) for the current period; and
    - (b) in the aggregate for periods before current period ; and
  - (iv) an explanation, if it is impracticable to determine the amounts to be disclosed in (iii) above  
Financial statements of subsequent periods need not repeat these disclosures.

#### **Disclosure of a Change in Estimate**

139. A Pradeshiya Sabha shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period.

#### **Disclosure of prior period errors**

140. A Pradeshiya Sabha shall disclose the following about prior period errors:
- (i) the nature of the prior period error;
  - (ii) the amount of the correction of the retained earnings;
  - (iii) an explanation if it is not practicable to determine the amounts to be disclosed in (ii) or (iii) above.

Financial statements of subsequent periods need not repeat these disclosures.

#### **Inventories**

141. Following assets shall be considered as Inventories:
- (i) assets in the form of materials or supplies to be consumed or distributed for the administrative affairs of the Pradeshiya sabha or when rendering the services;
  - (ii) assets retained to be sold or distributed in the ordinary operational process; or
  - (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services; or
  - (iv) assets to be sold or distributed in the production process.

#### **Measurement of Inventories**

142. Except when rule 143 is applied, inventories shall be measured at the lower of cost and net realization value.
143. Inventories retained for the followings, shall be measured at the lower of cost or current replacement cost.



- (i) Services rendered without fee or at a nominal fee or inventories consumed in the administrative process of the institution;
- (ii) inventories for distribution without a fee or for a nominal fee
- (iii) inventories for consumption that are in the manufacturing process for distribution without a fee or for a nominal fee

#### **Cost of Inventories**

144. A Pradeshiya Sabha shall include in the cost of inventories cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

#### **Cost of Purchase**

145. The cost of purchase of inventories comprise purchase price, import duties and other taxes (other than those subsequently recoverable from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, material and services. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase.

#### **Cost of conversion**

146. The cost of conversion of inventories includes only costs directly related to the units of production, such as direct material and direct labour.

#### **Joint products and by-products**

147. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an entity shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. When the cost of a by-product is not material, the entity shall measure it at selling price less costs to complete and sell and deduct this amount from the cost of the main product.

#### **Costs excluded from inventories**

148. Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:
- (i) abnormal amounts of wasted material, labour or other production cost;
  - (ii) storage cost, unless storage is required between production stages;
  - (iii) production and administrative overhead;
  - (iv) selling cost;
  - (v) interest cost; and
  - (vi) foreign exchange differences.

#### **Cost of Inventories of a Service**

149. Inventories of a service shall be measured at the cost of production. Cost of production consists primarily of cost of personnel directly engaged in providing the service, including the board of supervisory personnel. Cost relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service shall include profit margins or cost overheads.

### **Methods of Cost Ascertainment**

150. A Pradeshiya Sabha shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs
151. A Pradeshiya Sabha shall measure the cost of inventories, by using the first-in, first-out (FIFO) or weighted average cost method. A Pradeshiya Sabha shall use the same method for all inventories having a similar nature and use to the Pradeshiya Sabha. For inventories with a different nature or use, different methods may be justified.

### **Recognition as an Expense**

152. When inventories are sold, exchanged or delivered, Pradeshiya Sabha shall recognize the carrying amount of those inventories as an expense in the period in which the related revenue is recognized. If there is no related revenue the expense is recognized at the event of delivering the goods or rendering the service. Any write-off in inventory or value of all write-offs in inventory shall be recognized as an expense for the period in which the loss occurred. Any reverse of a value written off of a particular inventory shall be recognized as a reduction in the value of the inventories recognized as an expense during the period of reversing.
153. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are subsequently accounted for in accordance with the relevant chapter of this Standard relevant to that type of asset.

### **Disclosures**

154. A Pradeshiya Sabha shall disclose the following:
- (i) the accounting policies adopted in measuring inventories, including the method used;
  - (ii) the total carrying amount of inventories and the carrying amount in classifications appropriate to the Pradeshiya Sabha;
  - (iii) the amount of inventories recognized as an expense during the period;
  - (iv) write off within the period or inventories or reversions recognized as losses; and
  - (v) the total carrying amount of inventories pledged as security for liabilities

### **Property, Plant and Equipment**

155. Property, plant and equipment are tangible assets that:
- (i) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
  - (ii) are expected to be used during more than one reporting period
156. Items such as spare parts, stand-by equipment and servicing equipment are property, plant and equipment if the Pradeshiya Sabha expects to use them during more than one period or if they can be used only in connection with an item of property, plant and equipment. Otherwise, such items are classified as inventories.
157. Land and buildings are separable assets, and a Pradeshiya Sabha shall account for them separately, even when they are acquired together.

### **Measurement at Recognition**

158. A Pradeshiya Sabha shall measure an item of property, plant and equipment at initial recognition at its cost.

### **Elements of Cost**

159. The cost of an item of property, plant and equipment comprises all of the following:
- (i) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
  - (ii) any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the cost of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.
160. The following costs are not costs of an item of property, plant and equipment, and a Pradeshiya Sabha shall recognize them as an expense when they are incurred:
- (i) cost of opening a new facility;
  - (ii) cost of introducing a new product or service (including costs of advertising and promotional activities);
  - (iii) cost of conducting business in a new location or with a new class of customer (including costs of staff training);
  - (iv) administration and other general overhead cost; and
  - (v) borrowing cost.
161. The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognized in excess or deficiency if those operations are not necessary to bring the item to its intended location and operating condition.

### **Measurement after Initial Recognition**

162. A Pradeshiya Sabha shall measure an item of property, plant and equipment after initial recognition at cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.
163. The relevant proportion of cost less accumulated depreciation of an item of property, plant and equipment that has suffered damages, other than due to normal use, shall be recognized in excess or loss as impairment. An entity shall recognize the cost of day-to-day servicing of an item of property, plant and equipment in excess or loss in the period in which such cost is incurred.

### **Depreciable amount and Depreciation Period**

164. A Pradeshiya Sabha shall allocate the depreciable amount of an asset on a systematic basis over its useful life. The depreciable amount is cost minus accumulated depreciation and accumulated impairment losses, minus residual value. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.
165. The depreciation charge for each period shall be recognized in excess or deficiency.
166. Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, a Pradeshiya Sabha shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. A Pradeshiya Sabha shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate.

167. Depreciation of an asset begins when it is available for use, ie, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized or fully depreciated.
168. The useful life of an asset is the period over which the asset is expected to be available for use by the Pradeshiya Sabha or the number of production or similar units expected to be obtained from the asset by the entity. A Pradeshiya Sabha shall consider all of the following factors in determining the useful life of an asset:
- (i) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output;
  - (ii) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle;
  - (iii) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset;
  - (iv) legal or similar limits on the use of the asset, such as the expiry dates of related leases. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.
  - (v) Although the year in which the property is purchased or used is irrelevant for depreciation, depreciation shall be done for the relevant year at the time of exclusion.

#### **Depreciation method**

169. A Pradeshiya Sabha shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.

#### **Derecognition**

170. A Pradeshiya Sabha shall derecognize an item of property, plant and equipment:
- (i) on disposal; or
  - (ii) when no future economic benefits are expected from its use or disposal.
171. A Pradeshiya Sabha shall recognize the gain or loss on derecognition of an item of property, plant and equipment in profit or loss when the item is derecognized. The Pradeshiya Sabha shall not classify such gains as revenue
172. The date of disposal is the date when the risks and rewards of ownership of the asset have passed.
173. A Pradeshiya Sabha shall determine the gain or loss arising from derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### **Disclosures**

174. A Pradeshiya Sabha shall disclose the following for each class of property, plant and equipment:
- (i) the measurement bases used for determining the gross carrying amount;
  - (ii) the depreciation methods used;
  - (iii) the useful lives or the depreciation rates used;
  - (iv) the gross carrying amount, accumulated depreciation, and accumulated impairment losses if any at the beginning and end of the reporting period; and
  - (v) a reconciliation of the carrying amount at the beginning and the end of the reporting period showing separately,

- (a) additions;
- (b) disposals;
- (c) depreciation; and
- (d) impairment.

175. A Pradeshiya Sabha shall likewise disclose the existence and the carrying amount of property, plant and equipment pledged as a security for the limited ownership or liabilities.

#### **Leases**

176. “A lease” is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease may or may not transfer the ownership of the asset to the lessee at the end of the lease term.

177. This chapter covers accounting for all leases other than:

- (i) a lease to explore for or use mineral, oil, natural gas and similar non-regenerative resource;
  - (ii) a licensing agreement for such item as motion picture film, video recording, play, manuscript, patent or copyright;
  - (iii) a lease of biological assets; and
- (a) a lease that transfers substantially all risks and rewards incidental to ownership; and
  - (b) the period of the lease is not a significant part of the useful life of the asset.

#### **Financial Statements of lessees**

178. A lessee shall recognize lease payments as an expense on a straight-line basis unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

#### **Financial statements of lessors**

179. A lessor shall present assets subject to leases in its statement of assets and liabilities according to the nature of the asset.

180. A lessor shall recognize lease income in profit or loss on a straight-line basis over the lease term, unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

181. A lessor shall recognize as an expense costs, including depreciation, incurred in earning the lease income.

#### **Disclosures**

182. A lessee shall make the following disclosures for leases:

- (i) lease payments recognized as an expense.
- (ii) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

### **Employee Benefits - General Recognition Principle**

183. Employee benefits are consideration given by an entity in exchange for service rendered by employees, including management. A Pradeshiya Sabha shall recognize the cost of employee benefits to which its employees have become entitled as a result of service rendered to the entity, in accordance with the requirements stated in this chapter:
- (i) as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the reporting date, an entity shall recognize that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund; or
  - (ii) as an expense, unless another chapter of this standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment

### **Specific Employee Benefits**

184. When an employee has rendered service to a Pradeshiya Sabha, the Pradeshiya Sabha shall measure the amounts recognized in deficiency as follows:
- (i) benefits payable within a short period of time before or after the period of service, such as wages, salaries, contributions to provident funds or trust funds, medical insurance premiums, and use of vehicle or residence, in the reporting period in which service is rendered;
  - (ii) bonus and profit sharing payments, in the reporting period in which service is rendered;
  - (iii) medical benefits not covered by insurance, in the reporting period in which employee claims the benefit;
  - (iv) cost incurred for casual, annual or medical leave, in the reporting period in which leave is taken;
185. Benefits payable on termination of employment, such as gratuity shall be measured and recognized as a liability at the amount that would be payable at the end of the reporting period, if the employees leave on that date.
186. Removing an employee from the service before the normal date of retirement, benefits payable as a result of Pradeshiya Sabha's decision shall be recognized in the reporting period in which the decision is communicated to the employee.
187. The Pradeshiya Sabha recognizes the period during which the employee acknowledges the benefits payable in exchange for those benefits as a result of the employee's decision to accept voluntary unwanted redundancy.
188. Post-service benefits, such as pensions paid to former employees, shall be recognized as an expense for the period in which they were paid. If such benefits are paid for without reimbursement by another entity, such as the Central Government, the cost of such benefits shall be recognized by the Pradeshiya Sabha as income and expenses, both in the statement of financial performance and in the cumulative excess or deficiency.
189. The Pradeshiya Sabha shall disclose in its notes the following financial statements
- (i) The value of post-service benefits, such as pensions paid or payable to former employees of the Pradeshiya Sabha during the period;;
  - (ii) The amount of post-employee benefits paid or payable by other entities, such as the central government, as pensions to former employees of the Pradeshiya Sabha during the period;
  - (iii) The number of employees who were required to pay such post-service benefits during the period and the present number of potential employees entitled to such benefits upon retirement.

### **Revenue from non-exchange transactions**

#### **Taxes and Transfers**

190. Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of the Pradeshiya Sabha when those inflows result in increases in equity, other than the inflows related to contributions from the Government, Western Provincial Council as capital funds.

These rules are applied when accounting the revenue resulted from following transactions and events.

- (i) Including taxes received or receivable assessment tax
- (ii) Compensation, including fines received or due
- (iii) Transfer transactions received from the government excluding capital grants;
- (iv) Gifts and grants received except from the government

#### **Taxes and Compensation**

191. Taxes include the value paid or payable by the Pradeshiya Sabha and other forms of recoveries in accordance with the rules or regulations established for the purpose of getting the revenue to the Pradeshiya Sabha.
192. Taxes and compensation shall be recognized as revenue during the period of imposing.
193. Taxes and compensation relating to the period preceding the reporting date shall be recognized as an asset to be recoverable at the end of reporting.
194. The Government and Western Provincial Council transfers to incur such expenses are recognized as the revenue of the period in which such expenditure is recognized.
195. The Government's transfer to an identified property, plant and equipment or other assets is recognized as the revenue of the period in which the excess or deficiency of such property, plant and equipment or other assets is recognized.
196. A Government's transfer associated with a specific period shall be recognized as the revenue of that period.
197. Any government transfers, other than capital funds not referred to in paragraphs 194,195 or 196, shall be recognized as revenue in the period in which such transfers are received or to be received.
198. The government's transfers to capital expenditures are primarily identified in other comprehensive income. Similarly, the equivalent value is deducted from other comprehensive income in the period in which it has met the revenue recognition criteria identified in the preceding paragraphs, which are recognized as the recognized income of other comprehensive income. Assets and liabilities shall be recognized in the Statement of Assets and Liabilities as a separate component of the equity of the government transfers that does not satisfy the revenue recognition criteria set forth in the preceding paragraphs of the reporting date.

#### **Transfers from other parties excluding the Government or Western Provincial Council**

199. Expenditures from parties other than the government are recognized as the revenue of the period in which such expenditure is recognized.
200. Any non-governmental transfer of funds to the identified property, plant and equipment or other assets shall be recognized as the excess or deficiency of such property, plant and equipment or other assets as the income of the period in which it was identified.
201. A transfer other than from the government associated with a specific period shall be recognized as the revenue of that period.

202. Any other transfers from the government or Provincial Council other than capital funds not referred to in section 199,200 and 201 shall be recognized as revenue in the period in which such transfers are received or to be received.
203. The government's transfers to capital expenditures are primarily identified in other comprehensive income. Similarly, the equivalent value is deducted from other comprehensive income in the period in which it has met the revenue recognition criteria identified in the preceding paragraphs, which are recognized as the recognized income of other comprehensive income. Assets and liabilities shall be recognized in the Statement of Assets and Liabilities as a separate component of the equity of the government transfers that does not satisfy the revenue recognition criteria set forth in the preceding paragraphs of the reporting date.

### **Disclosure**

204. A Pradeshiya Sabha shall disclose the following regarding taxes and transfers
- (a) The value of the revenue recognized as tax, with an appropriate analysis of the type of tax;
  - (b) Revenue recognized as fines with an appropriate analysis of fines of compensation

### **Revenue from exchange transactions**

205. Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of the Pradeshiya Sabha when those inflows result in increases in equity, other than the inflows related to contributions from the Government, Western Provincial Council as capital funds. chapter shall be applied in accounting for revenue arising from the following transactions and events:
- (a) the sale of goods (whether produced by the entity for the purpose of sale or purchased for resale);
  - (b) the rendering of services;
  - (c) construction contracts in which the entity is the contractor. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use; and
  - (d) deposits or receivables yielding interest

### **Measurement of Revenue**

206. The value of the consideration received or receivable is after deducting the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the Pradeshiya Sabha.
207. A Pradeshiya Sabha shall include in revenue only the gross inflows of economic benefits received and receivable by the Pradeshiya Sabha on its own account. A Pradeshiya Sabha shall exclude from revenue all amounts collected on behalf of third parties. Taxes based on sales or value added collected on behalf of a government shall not be included in revenue. In an agency relationship, an entity shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the Pradeshiya Sabha.

### **Sale of goods**

208. A Pradeshiya Sabha shall recognize revenue from the sale of goods when all the following conditions are satisfied:
- (a) the Pradeshiya Sabha has transferred to the buyer the significant risks and rewards of ownership of the goods;
  - (b) the Pradeshiya Sabha retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;



- (c) the amount of revenue can be measured reliably;
- (d) it is probable (*ie* more likely than not) that the economic benefits associated with the transaction will flow to the Pradeshiya sabha; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

209. The assessment of when Pradeshiya Sabha has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. A Pradeshiya Sabha shall not recognize revenue if it retains significant risks and rewards of ownership.

#### Rendering of Services

210. When the outcome of a transaction involving the rendering of services can be estimated reliably, a Pradeshiya Sabha shall recognize revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period.
211. Sometimes referred to as the percentage of completion method, the outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- (i) the amount of revenue can be measured reliably;
  - (ii) it is probable that the economic benefits associated with the transaction will flow to the Pradeshiya Sabha;
  - (iii) the stage of completion of the transaction at the end of the reporting accounting period can be measured reliably; and
  - (iv) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.
212. Where the outcome of the transaction involving the rendering of services cannot be estimated reliably, a Pradeshiya Sabha shall recognize revenue only to the extent of the expenses recognized that are recoverable.

#### Construction Contracts

213. When the outcome of a construction contract can be estimated reliably, a Pradeshiya Sabha shall recognize contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. Reliable estimation of the outcome requires reliable estimates of the stage of completion, and future costs.

#### Percentage of Completion Method

214. This method is used to recognize revenue from rendering services and from construction contracts. A Pradeshiya sabha shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.
215. A Pradeshiya Sabha shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include:
- (a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments;
  - (b) surveys of work performed; and
  - (c) completion of a physical proportion of the service transaction or contract work. Progress payments and advances received from customers often do not reflect the work performed.

216. A Pradeshiya Sabha shall recognize costs that relate to future activity on the transaction or contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.
217. A Pradeshiya Sabha shall recognize as an expense immediately any costs whose recovery is not probable.
218. When the outcome of a construction contract cannot be estimated reliably:
- (a) a Pradeshiya Sabha shall recognize revenue only to the extent of contract costs incurred that it is probable will be recoverable; and
  - (b) the Pradeshiya Sabha shall recognize contract costs as an expense in the period in which they are incurred.
219. When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognized as an expense immediately, with a corresponding provision for an onerous contract.
220. If the collectability of an amount already recognized as contract revenue is no longer probable, the Pradeshiya Sabha shall recognize the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

#### **Interest**

221. Interest shall be recognized using the effective interest rate.
222. The effective interest rate is the rate that exactly discounts estimated future cash receipts, to the carrying amount of the asset. The effective interest rate is determined at initial recognition. Under the effective interest method:
- (a) the carrying value of an asset is the present value of future cash receipts discounted at the effective interest rate; and
  - (b) the interest income in a period equals the carrying amount of the asset at the beginning of a period multiplied by the effective interest rate for the period.
223. Where interest is received regularly at the same interest rate and premiums, discounts or other receipts or payments are not involved in relation to the asset for which interest is received, interest receivable from that asset for the period is the interest income from that asset for that period.

#### **Disclosures**

224. A Pradeshiya Sabha shall disclose:
- (a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions, where relevant; and
  - (b) the amount of each category of revenue recognized during the period, showing separately, at a minimum, revenue arising from:
    - (i) the sale of goods;
    - (ii) the rendering of services;
    - (iii) interest;
    - (iv) commissions; and
    - (v) any other significant types of revenue.
225. A Pradeshiya Sabha shall disclose the followings relating to revenue from construction contracts.
- (a) the amount of contract revenue recognized as revenue in the period;
  - (b) the methods used to determine the contract revenue recognized in the period; and
  - (c) the methods used to determine the stage of completion of contracts in progress

226. A Pradeshiya Sabha shall present:
- (i) the gross amount due from customers for contract work, as an asset; and
  - (ii) the gross amount due to customers for contract work, as a liability.
227. The Pradeshiya Sabha shall in general, disclose the following:
- (i) The value of the revenue recognized in the exchange transactions with an appropriate analysis by the type of transaction;
  - (ii) Recognized value of excess or deficiency in non-recoverable receivables from exchange transactions;
  - (iii) Values recognized as receivables from exchange transactions on the reporting day with an analysis of the amount allowed for the non-recoverable and gross values receivable;
  - (iv) An analysis on the movement of amount allowed for the non-recoverable during the reporting period, including the value of the amount allowed at the beginning of the period, the recognized value of excess or deficiency; and the amount allowed on the reporting day ;
  - (v) An age analysis of the gross value of receivables from reporting day from exchange transactions; and
  - (vi) Certain values written-off from receivables from the exchange transactions as unrecoverable during the period and the authority approved the act of write-off.
228. This Chapter applies to all provisions (ie liabilities of uncertain timing or amount), contingent liabilities and contingent assets except those provisions covered by other chapters of this Standard. These include provisions relating to:
- (i) leases;
  - (ii) construction contracts ;
  - (iii) employee benefit obligations; and
  - (iv) income tax;
229. A Pradeshiya Sabha shall recognize a provision only when:
- (a) the Pradeshiya Sabha has an obligation at the reporting date as a result of a past event;
  - (b) it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and
  - (c) the amount of the obligation can be estimated reliably.
230. The Pradeshiya Sabha shall recognize the provision as a liability in the statement of assets and liabilities and shall recognize the amount of the provision as an expense, unless another chapter of this standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

#### **Initial measurement**

231. A Pradeshiya Sabha shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.
- (a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as 'likely as any other, the mid-point of the range is used.

- (b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the Pradeshiya Sabha considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount than the single most likely outcome.

### **Subsequent Measurement**

232. A Pradeshiya Sabha shall charge against a provision only those expenditures for which the provision was originally recognized.
233. A Pradeshiya Sabha shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognized shall be recognized in excess or deficiency unless the provision was originally recognized as part of the cost of an asset.

### **Contingent Liabilities**

234. “A contingent liability” is either a possible but uncertain obligation or a present obligation that is not recognized because it fails to meet one or both of the conditions (i) and (iii) in Section 228. A Pradeshiya Sabha shall not recognize a contingent liability as a liability. When a Pradeshiya Sabha is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

### **Contingent Assets**

235. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Pradeshiya Sabha. A Pradeshiya Sabha shall not recognize a contingent asset as an asset. When the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

### **Disclosures about Provisions**

236. For each class of provision, a Pradeshiya Sabha shall disclose all of the following:
- (i) a reconciliation showing:
    - (i) the carrying amount at the beginning and end of the period;
    - (ii) additions during the period;
    - (iii) amounts charged against the provision during the period; and
    - (iv) unused amounts reversed during the period;
  - (ii) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;
  - (iii) an indication of the uncertainties about the amount or timing of those outflows; and
  - (iv) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

### **Disclosures about Contingent Liabilities**

237. Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:
- (a) an estimate of its financial effect
  - (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
  - (c) the possibility of any reimbursement.

If after making every reasonable effort to do so, a Pradeshiya Sabha cannot make one or more of these disclosures, that fact shall be stated.

### **Disclosures about Contingent Assets**

238. If an inflow of economic benefits is probable (more likely than not) but not virtually certain (therefore not recognized), a Pradeshiya Sabha shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of their financial effect. If after making every reasonable effort to do so, an entity cannot make this disclosure, that fact shall be stated.

### ***Borrowing Cost***

239. This chapter prescribes requirements relating to borrowing cost. Borrowing costs are interest and other costs that an entity incurs in connection with borrowing of funds.

### **Recognition**

240. A Pradeshiya Sabha shall recognize all borrowing costs as an expense in profit or loss in the period in which they are incurred.
241. A Pradeshiya Sabha shall recognize total interest expense recognized during the reporting period.

### ***Foreign Currency Translation***

242. The manner of including foreign currency transactions in the financial statements of a Pradeshiya Sabha, to the extent approved by the written law shall be as follows.

### **Reporting Foreign Currency Transactions**

243. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when a Pradeshiya Sabha:
- (i) buys or sells goods or services whose price is denominated in a foreign currency;
  - (ii) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency;  
or
  - (iii) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.
244. A Pradeshiya Sabha shall record a foreign currency transaction, on initial recognition in the local currency, by applying to the foreign currency amount the spot exchange rate between the local currency and the foreign currency at the date of the transaction.

245. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this standard. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example:

- (i) an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period; or
- (ii) the rate at which related receivable or payable was settled may be used, if the settlement occurred within a short period of the date of transaction.

#### **Reporting at the end of subsequent reporting periods**

246. At the end of each reporting period, shall:

- (i) translate foreign currency monetary items using the closing rate; and
- (ii) translate non-monetary items in a foreign currency using the exchange rate at the date of the transaction; and

247. A Pradeshiya Sabha shall recognize, in profit or loss in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods.

#### **Related Party Disclosures**

248. A Pradeshiya Sabha shall include in its financial statements the disclosures necessary relating to transactions with related parties and outstanding balances with such parties.

#### **Definition of a Related Party**

249. If one party (a) has control over the other (b), or has a significant influence on the other party in making financial and operational decisions, those parties shall be treated as related parties in this matter.

250. Related parties include:

- (i) Personnel of key management and close associates of key management;
- (ii) Any person described in paragraph (a), who is directly or indirectly has the right of substantial ownership, or such a person who is able to make a substantial influence on them;
- (iii) Parties that have or have a significant influence on the Pradeshiya Sabha which is being reported.

251. The key management personnel are,

- (i) All the members of the Pradeshiya Sabha,
- (ii) Other persons having authority and responsibility for planning, directing and controlling activities of the Pradeshiya Sabha; and
- (iii) The Secretary of the Pradeshiya Sabha and the heads of one of its divisions, as the case may be.

252. The following people are presumed to be close family members of an individual.

- (i) Spouse, domestic partner or relatives living as common residents;
- (ii) Infants, grandsons, granddaughter, parents, grandparents, brother or sister and;
- (iii) Children of a spouse or domestic partner, parents in law, brother in law, daughter in law

### **Disclosure of subsidiary-Parent Relationships**

253. Relationships between a subsidiary and its parent shall be disclosed irrespective of whether there have been related party transactions

### **Disclosure of related party transactions**

254. If a Pradeshiya Sabha has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements.

255. The following transactions that shall be disclosed if they are with a related party:

- (i) purchases or sales of goods (finished or unfinished);
- (ii) purchases or sales of property and other assets;
- (iii) leases;
- (iv) transfers of research and development;
- (v) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- (vi) provision of guarantees or collateral;
- (vii) settlement of liabilities on behalf of the Pradeshiya Sabha or by the entity on behalf of another party; and

256. A Pradeshiya Sabha shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

257. A Pradeshiya Sabha may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

### **Other Assets and Liabilities**

#### **Receivables**

258. A Pradeshiya Sabha shall recognize and measure a trade or other receivable initially at transaction price.

259. A Pradeshiya Sabha shall review and consider whether the amount receivable at the end of the reporting period is recoverable.

260. The Pradeshiya Sabha shall review the amounts receivable at the end of the reporting period, to assess the extent to which the amounts shown as receivable are likely to be recovered. The Pradeshiya Sabha shall measure trade and other receivables recognized in the statement of assets and liabilities at the amounts likely to be recovered and the differences shall be recognized in excess or deficiency, as allowance for impairment of receivables

### **Shares in listed companies**

261. Shares traded in a stock exchange shall be measured at the volume weighted average price of trades in the last trading period before the end of the reporting period as regularly disclosed by the relevant stock exchange

262. If, a share listed in a stock exchange was suspended from trading in that exchange, at the end of the reporting period, the Pradeshiya Sabha shall measure the shares in the statement of assets and liabilities at its most probable value on that date.

### **Shares in other companies**

263. Shares in companies which are not quoted in a stock exchange shall be measured at cost or net asset value whichever is lower. The net asset value of the shares shall be ascertained based on the general-purpose financial statements of that Pradeshiya Sabha.

### **Loans payable**

264. Loans payable by the Pradeshiya Sabha shall be measured at the amount repayable.
265. A loan for which the amount repayable within a year was less than the amount repayable after one year at the time the loan was received is classified as a non-current liability
266. Unpaid interest accrued up to the end of the reporting period shall be recognised as a liability in the statement of assets and liabilities

### **Payables**

267. A Pradeshiya Sabha shall recognize and measure payable initially at transaction price.
268. The amount remaining payable at the end of the reporting period shall be recognised as a liability in the statement of assets and liabilities

### **Tax on Excess or Deficiency**

269. A Pradeshiya Sabha shall recognize the amounts payable as tax on its excess or deficiency up to the end of the reporting period, based on the amounts payable computed in accordance with the relevant statutes.

### **Disclosures**

270. Following shall be disclosed separately in respect of receivable from non-exchange transactions and exchange transactions:
- (i) Net value recognized as receivables on the reporting day with an analysis of the allowance for the gross values of the receivables and the unrecoverable receivables;
  - (ii) An analysis on the movement of the allowance for receivables of non-recoverable during the reporting period, including the final allowance on the reporting date, the recognized value of excess or deficiency; and the value of the allowance at the beginning of the period;
  - (iii) An age analysis on gross values to be received to the reporting date; and
  - (iv) Certain values written-off as unrecoverable within the reporting period and the authority that approved such write-offs.

### **Reporting of Service Performance Information Scope**

271. Reporting of service performance information in financial statements shall be in accordance with the provisions mentioned under this chapter.
272. By reporting service performance information in terms of this chapter, good practice is represented. It is not necessary to comply with this chapter to ensure that the financial statements are prepared in accordance with the Sri Lanka Public Sector Accounting Standard for Local Authorities.
273. Service performance information shall not be interpreted to be in compliance with this chapter unless it complies with all of the principles of this chapter.

### **Service Performance Statement**

274. A Pradeshiya Sabha which records service performance information in accordance with this chapter shall, in addition to submitting financial statements specifically referred to under these rules, be required to submit a service performance statement.



### **Service performance information**

275. Following information shall be presented in the Service Performance Statement සේවා කාර්ය

- (i) Service performance objectives;
- (ii) Performance indicators; and
- (iii) Total cost of services

276. Pradeshiya Sabha shall present following information in respect of the performance indicators and the total cost of services.

- (i) planned and factual information for the reporting period; and
- (ii) Factual information for the pre-reported period

277. Where information contained in other statements or notes comprising financial statements is included in the Service Performance Information, reference shall be made to the Service Performance Statement.

### **Detailed Inquiry and Analysis**

278. A Pradeshiya Sabha shall present a detailed inquiry and an analysis based on its service performance information.

279. A brief overview on the service performance of the Pradeshiya Sabha shall be presented in the detailed inquiry and analysis done based on the service performance information.

280. By detailed inquiry and analysis of service performance;

- (i) Discuss the extent to which service performance objectives have been achieved
- (ii) Presenting an impartial explanation that addresses both the positive and negative aspects of the information presented.
- (iii) To facilitate user assessment of the efficiency and effectiveness of the service performance of the Pradeshiya Sabha

### **Events after the End of the Reporting Period**

281. Events after the end of the reporting period are those events that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

### **Recognition and measurement**

#### **Adjusting events after the end of the reporting period**

282. A Pradeshiya Sabha shall adjust the amounts recognized in its financial statements, or recognize items that were not previously recognized, including related disclosures, to reflect adjusting events after the end of the reporting period. Adjusting events after the end of the reporting period are those events that provide evidence of conditions that existed at the end of the period.

283. Followings shall be considered as examples for the events mentioned in above section.

- (i) the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:
  - (a) the bankruptcy of a customer that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

- (b) the sale of inventories after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing amount recoverable at that date.
- (ii) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

#### **Non-adjusting events after the end of the reporting period**

- 284. A Pradeshiya Sabha shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the end of the reporting period. Non-adjusting events after the end of the reporting period are those events that are indicative of conditions that arose after the end of the reporting period
- 285. An example of a non-adjusting event after the end of the reporting period is a loss caused by flood, fire, or other event that occurred after the end of the reporting period

#### **Disclosure**

##### **Date of authorization for issue**

- 286. A Pradeshiya Sabha shall disclose the date when the financial statements were authorised for issue and who gave that authorisation.

### **Chapter V**

#### **Assessment Tax, Other Taxes and Fees**

- 287. A Pradeshiya Sabha shall maintain information on all buildings and lands that assessment tax shall be paid to the Pradeshiya Sabha, under a document of assessment tax prepared in accordance with the format prescribed by the Commissioner of Local Government.
  - (i) In respect of unpaid assessment tax within the time ordered by the Pradeshiya Sabha as ordered in the Basic Law, the Pradeshiya Sabha shall issue a permit for the payment of such assessment and recovery charges.
  - (ii) The Secretary shall take every possible action to levy the amount of assessment tax and other charges having completed the step mentioned in the law relating to an issued permit, before the end of the following quarter.
  - (iii) No fee in addition to the assessment tax payable shall be charged, in any case, unless the property has been seized under a license.
  - (iv) It is the duty of the issuing authority who issues a warrant for the seizure of property, to keep a seized movable property under protection and the information on seized properties shall be prepared in three copies and one copy shall be kept in the custody of the Secretary or the Chief Officer of the Revenue department.
  - (v) The person who authorized to seize the property by executing the permit on seizure of property shall issue the due receipt which is for the assessment tax and additional charges in the name of the person who is subject to assessment tax.
  - (vi) Assessment tax levied in the event of the seizure of property and the additional charges as mentioned in the written law, shall be deposited and the Officer in Charge of the seizure of property shall present accounts relevant thereto.
- 288. It shall be the duty of the relevant officer to submit to the issuing officer a report of the actions taken under a permit issued to an officer for the act of seizure of property.

289. In the event of obtaining the service of a person who is not a regular member of the Sabha for the purpose of seizing property, the matters related to the amount of money payable for him for that, shall be in accordance with the relevant agreement between the Sabha and the relevant service provider.

290. Where the assistance of an external person is sought for the purpose of seizure of property, it is the duty of the Secretary of the Pradeshiya Sabha to obtain an appropriate guarantee thereto from the relevant external party.

#### **Acreage Tax**

291. Where a Pradeshiya Sabha has scheduled to impose the acreage tax, a register of property subject to the acreage tax shall be maintained.

292. In case of executing a permit, if an acreage tax imposed by a Pradeshiya Sabha is unpaid, rules from 287 to 290 herein shall be applied as the case may be.

293. It is the duty of the Secretary of the Pradeshiya Sabha and the officers authorized by him for that purpose to act properly identifying the physical changes through the property realization, in respect of the properties related to the assessment tax and the acreage tax.

#### **Vehicle and Animal Tax**

294. Information pertaining to vehicle and animal tax shall be obtained by each household head and a document shall be maintained with reference to the information obtained.

295. If there is a by law in force for the relevant purpose of levying vehicle and animal taxes, relevant tax shall be levied considering them as parallel purposes.

#### **Industrial Tax and Business Tax**

296. Revenue inspectors of the Local Government Authority shall conduct a survey of the property subject to industrial tax and Business tax in each jurisdiction of Pradeshiya Sabha and prepare relevant lists prior to the 31<sup>st</sup> of March in relevant tax year.

297. Following information shall be included to the report prepared under the above section (293)

- (i) Industry/Location of Business ,
- (ii) Grama Niladhari Division,
- (iii) Nature of the Industry/Business,
- (iv) Assessment No. If any,
- (v) Annual value of the place (If calculated),
- (vi) Name of the person running the industry/business.

298. The records shall be kept in accordance with the specimen prescribed by the Commissioner of Local Government, with separate information on property subject to industrial tax and property subject to business tax.

299. The Head of the revenue department of the Pradeshiya Sabha shall report the Secretary of the Pradeshiya Sabha, before 30<sup>th</sup> of April of the current year, making a list of property and defaulters subject to the industrial tax or business tax unpaid as at thirty first (31<sup>st</sup>) of March of the Current year.

300. It is the duty of the Secretary of the Pradeshiya Sabha to comply with the provisions of the Basic law on the recovery of unpaid Industrial tax and Business Tax by 30<sup>th</sup> March of the current year.

#### **Tax on undeveloped land**

301. While identifying lands which are subject to the tax on undeveloped land, located within the jurisdiction of the Pradeshiya Sabha, those who claim rights to the relevant land shall be informed that the undeveloped land in

jurisdiction of Pradeshiya Sabha is subject to the tax on undeveloped land in accordance with the provisions of the Basic Law.

302. The relevant notice shall be informed by the registered post to the party claiming the right for the property subject to the tax, giving a specific period of time to provide information for the identification of capital value in respect of taxable property or shall be hand- delivered.
303. Upon submission of notice under the above section, if the desired information is not provided within the period given under the notice, it shall be lawful to determine the capital value, considering there is no such information.
304. If the person who is subject to the tax, does not pay the tax, it is the duty of the Secretary of the Pradeshiya Sabha to act under the provisions of the Basic Law to recover the relevant tax money.
305. Information on levying taxes on undeveloped lands shall be maintained under a separate report.

#### **Tax on Sale of Land**

306. Levying of taxes on the sale of lands of a Pradeshiya Sabha shall be calculated on the pledge of the sale of the land.
307. Before any land is sold, if any money is to be paid for taxes on the sale of land, the amount payable shall be a deposit and after the sale of the land, actions shall be taken to recover the balance and the full amount.
308. The Secretary of the Pradeshiya Sabha shall act in accordance with the basic law to recover the unpaid tax on the sale of land.
309. Information relating to tax on sale of land shall be nominated in a document complying with the format prescribed by the Commissioner of Local Government.

### **Chapter VI**

#### **Leasing / Renting of Property**

310. Information in respect of property leased /rented by a Local Government Institution shall be maintained in compliance with the Sri Lanka Public Sector Accounting Standards for Local Authorities in accordance with the format prescribed by the Commissioner of Local Government.
311. Every contract entered into by a Local Authority with respect of leasing or renting of property with a second party shall provide to the Internal Audit Division and the Revenue Division a copy certified by the Administrative Head of the Local Government Authority.
312. The monthly rent in respect of the agreement shall be paid on or before the 10<sup>th</sup> day of the month in which the rent is due, and shall be in accordance with the terms of the relevant agreement.
313. The Executive Head and the Administrative Head of the Local Government Institution shall take all steps necessary to comply with the provisions of the Basic Law and the provisions mentioned under the rules hereinafter in the act of leasing /renting of property of the Local Authorities.
314. In the tender process relating to leasing or renting of property belonging to the Pradeshiya Sabha, the Sabha or a committee for which the power is been delegated by the Sabha separately or generally is meant to be its entity and a procurement committee means any other committee appointed by the Sabha for a certain tender affair or tender affairs.
315. The tender procedure under these Rules shall ensure the following:

- (i) Tender work in a timely manner enabling to achieve the highest quality with maximum economic benefits
- (ii) To act in accordance with the applicable written law in force and working in a manner of getting the maximum financial benefit to the Fund of the Sabha.
- (iii) Provide fair, equal and maximum opportunities for qualified and interested parties to participate in tenders.
- (iv) Ensure the transparency and legitimacy of the evaluation and the process of selections.
- (v) Complete the tender process in a more transparent manner so that interested people can find out the correct information related to the tender process.

316. The tender procedure for leasing of property of the Pradeshiya Sabha shall be completed in a manner of upholding the followings.

- (i) Ensuring the maintenance of the process keeping the right of the people to know the information relating to the tender subject to the limits of the written law,
- (ii) Those who are involved in a tender process should not misuse their powers. He should not misuse his position in the tender process for the benefit of himself or his family members or business partners,
- (iii) Each officer concerned shall declare the tender process to be inconsistent with the relationship during the entire process. In the event of arising such a suspicion, the relevant officer shall declare his affiliation and withdraw from the tender process,
- (iv) Avoid any personal benefits from a tender process. No gift shall be accepted and shall not subject to any temptation. No action shall be taken in any manner which may have an effect on the decision of any person involved in the tender, or which may harm their objectives,

317. (i) The Chairman of the Pradeshiya Sabha shall submit to the Sabha a proposal to appoint an Evaluation Committee for the purpose of leasing, renting, selling or maintaining property owned by the Sabha and maintaining the responsibility regarding the private sector,

(ii) In making such a proposal, it shall be confirmed in the proposal that prerequisites for the proposal have been met,

(iii) The Council shall appoint a permanent or occasional tender committee and an evaluation committee for the tender work described under these Rules.

318. The Tender Committee shall certify to the Sabha that the tender process is completed by completing the following:

- (i) Maintain necessary communication links with all the partners in the tender process,
- (ii) Preparation of Pre-Qualification Documents, Specification Documents and Bidding Documents. and submitting them to the Technical Evaluation Committee for review and approval,
- (iii) Preparing data and information before obtaining the evaluation report,
- (iv) Distribution of minutes of Evaluation Committees and Tender Committee meetings and
- (v) Making a relevant request of the Evaluation Committee to provide necessary assistance to justify the ease of the tender process and all other incidental matters thereto.
- (vi) Maintaining transparency of all information and steps relating to tender process.

319. Tender Committee and the Evaluation Committee shall be responsible for the recommendations of the Committees submitted to the Sabha.
320. Relevant Tender Committees and Evaluation Committees shall carry out the entire tender process as outlined in these Rules.
321. All members of the Tender Committees and Evaluation Committees shall prioritize the work assigned to them by the Tender Committee / Evaluation Committee over their day to day activities.
322. The Tender Committee shall be satisfied with the following matters pertaining to the Tender Process.
- (i) That he was duty appointed to the tender committee,.
  - (ii) Reviewing and agreeing with the tender schedule for granting as planned,
  - (iii) At the first meeting, determination of dates and particulars for publication of tenders, sale of bidding documents, closing and opening of calling for bids.
323. The Technical Evaluation Committee shall be satisfied that the following activities have been completed:
- (i) Agreement with Tender Committee on Tender Schedule to award within the minimum time period,
  - (ii) It has been recommended by the Tender Committee to obtain written explanations from the Bidders where appropriate,
  - (iii) Where necessary, documents for calling for bids have been recommended appendices.,
  - (iv) Having attended the consensus discussions based on the notifications made by the Tender Committee,
  - (v) Ensuring that the draft Bill prepared by the Sabha is in compliance with the observations of the Tender Committee and its relevant recommendations have been submitted to the Tender Committee.
324. In exceptional cases determined by a consensus of the Sabha and in the event that it is necessary to proceed outside the normal tender procedure to suit that particular situation, the Finance Committee may report to the Sabha stating the special matters thereof and a decision shall be taken subject to the approval of the Assistant Commissioner of Local Government having considered such matters.
325. In the composition of every tender committee appointed by the Sabha, there shall be the Chairman of the Pradeshiya Sabha, Secretary of the Pradeshiya Sabha, and an officer nominated by the Assistant Commissioner of Local Government of the District where the Local Authority is located as compulsory members and in addition to that all other members shall be appointed to a total of five (05) members. For the other members appointed as such, two shall be compulsorily a member that represents the Sabha and the representation of the women of the Sabha shall also be considered in doing such appointments.
326. The Chairman of the Pradeshiya Sabha shall be the Chairman of the Tender Committee.
327. When the Chairman of a Tender Committee is unable to attend the scheduled meeting for any reason, any member present in the committee shall act as acting Chairman to enable the meeting to be conducted properly.
328. All Evaluation Committees shall be appointed by the Chairman after the decision of the Sabha.
329. An officer of the Sabha shall be appointed by the Chairman having decided by the Sabha as the Secretary to each Tender Committee.

330. In the event of appointing an evaluation committee for any tender purpose, no member shall be a member of both Evaluation Committee and Tender Committee.
331. The Evaluation Committee may report to the Sabha on any specific subject matter or for the purpose of drafting and evaluating the Bidding Documents, thereby obtaining expert advice from external persons or institutions.
332. Payments for attending meetings of members appointed to Tender Committee and Evaluation Committee shall comply with the directions and instructions given by the Commissioner of Local Government of the Province from time to time.
333. When a member of the Tender Committees is unable to attend a scheduled meeting for any reason and is unable to perform his duties, such member shall in writing inform the Secretary of the Committee regarding such inability.
334. In the absence of such a member, if the attendance exceeds 50% of the total members, they may choose to continue the meeting as scheduled. Any observations of the absent member shall be circulated by the Committee Secretary to the other members of the Committee.
335. The minutes of the meeting shall be sent to the member who did not attend the meeting within a week by the Secretary of that committee. If his observations are made within three days, it shall be presented to the Chairman and the Chairman shall present it to the Committee.
336. If a member of such Tender Committee or Evaluation Committee does not attend three consecutive meetings without an acceptable reason, he shall be deemed to have been removed from the membership of that Committee and the Secretary of the Committee shall report it to the Commissioner of the Local Government and the Sabha.
337. The Secretary of the Committee shall, in consultation with the Chairman, notify the members of the date, time and place of each meeting.
338. A joint first meeting of the Tender Committee and Evaluation Committee shall be held to agree on the Tender Schedule, Tender Method and Tender Documents.
339. The dates and times of the meetings of the Committee shall be in accordance with the tender schedule.
340. The attendance register of the members shall be maintained by the Secretary of the Committee.
341. The minutes of the meetings of the Committee shall be recorded in the format approved by the Sabha and certified by the members present.
342. Any member of a tender committee can report that they disagree. In such a case, a separate written report shall be submitted as an annexure to the minute of the Committee for reasons of disagreement.
343. The Secretary of the Sabha shall make arrangements for the safe keeping of minutes and shall keep such minutes for at least twelve (12) years.
344. All members of the Tender Committees and Evaluation Committees shall sign a declaration at the first meeting of such Committees on impartiality, integrity and that there are no personal relationship.
345. By the Sabha or the finance committee authorized by the Sabha,
  - (i) shall come into conclusion on performance of Tender Committees and Evaluation Committees,
  - (ii) shall conduct randomly selected post-tender reviews. If not, take actions for it,
  - (ii) a method based on a random selection for inspecting and reporting the regularity of attending meetings and whether the decisions taken by the members are in accordance with the accepted tender procedures and these rules shall be carried out and such reports shall be reviewed time to time by the Sabha and take necessary remedial measures.

346. The Chairman shall take action to report to the Commissioner of Local Government and take following steps if members of Tender Committee and Evaluation Committee proven or shown to be acted negligently, obviously, inactively or irresponsibly in the conducting the committee and performing the functions thereof,
- (i) Advise to expedite the tender process by revising the tender schedule;
  - (ii) Advise to follow corrective measures;
  - (iii) Proposing to the Sabha to take action to correct the membership.
347. The entire tender process shall be planned efficiently in accordance with the tender plan to ensure that the project is completed in time.
348. Calling of bids or the checking of pre-qualification of bidders shall be conducted with the approval of the Tender Committee.
349. For the Master Tender Plan
- (i) The Secretary of the Sabha shall prepare the Master Tender Plan. Approval of the Sabha shall be obtained for this purpose.
  - (ii) Tender activities expected for a minimum period of one year shall be listed in the Master Tender Plan.
  - (iii) The main tender plan shall be updated in not more than six (06) months
350. The tender process shall be periodically incorporated into a two-phase schedule, from beginning to the end of the process, with the tender process from start to finish. This shall be prepared by the Secretary of the Sabha.
351. From the beginning of the tender process to the drafting of the bidding documents shall be the first phase and the first phase shall be prepared without any delay and supervising the daily updating of the same is the responsibility of the Secretary.
352. All tender proceedings following the preparation of the bidding documents shall include the second stage of the tender schedule.
353. It shall be the responsibility of the Tender Committee to consider the tender schedule and approve it at the first meeting and the Chairman shall submit the draft of the tender schedule relevant to the tender and the tender documents relevant thereto to the Committee.
354. Once the tender schedule has been agreed upon, the Chairman of the Tender Committee shall monitor the progress of the tender process having inquired the membership of the Evaluation Committee and report to the Sabha.
355. It is the responsibility of the Chairman of the Tender Committee to clarify the cause of the delay, take remedial action and inform the Sabha in the event of major delays.
356. Commencement of drafting of Bidding documents, even before the Evaluation Committee is appointed, can be initiated by an officer authorized by the Sabha.
357. The Bidding Invitation shall include the relevant and relevant basic information required by the Bidder to prepare the Bid or Price Reference, including the criteria and eligibility requirements that the winning Bidder shall have, and shall be directly eligible.
358. The relevant matters set out in the Rules shall be contained in the Instructions to Bidders.
359. Parties that have been previously decided and blacklisted by the Sabha and updated from time to time shall be published from time to time by Sabha.



360. The followings shall be guaranteed by a Bid Security:

- (i) That the Bidder may not withdraw or modify the Bid during the validity period
- (ii) That agrees to a bidding price, after correcting the mathematical errors, according to the criteria described in the bidding documents,
- (iii) That the bidder accepts the award, if the tender is offered during the validity period
- (iv) That the bidder offers a performance security before the closing date specified in the bidding documents.

One of the following methods shall be applied for the Bid Security.

(i) **Submission of a Bid Security Declaration**

If the Bidder fails to meet the terms of the Bid Security, the Bidder shall submit a Bid Security Statement in the prescribed form, agreeing that the Bidder will be subject to the suspension of the award of property or other property to the Bidder.

(ii) **Ordering to submit an appropriate bid security or cash deposit**

(iii) In dealing with subsection (II) above, the Sabha shall choose one of the following two options:

- (a) Obtain a Bid Guarantee only in the form of a Guarantee for a Specific Amount Payable, up to one to two percent (1% to 2%) of the assessed value
- (b) Obtain a Bid Guarantee only in the form of a one-time payment equal to an amount from 5% to 1% of the assessed value.

(iv) If a bid security is offered in the form of "security, guarantee, bond" it cannot be revoked and shall be able to converted into cash unconditionally at the first written request made by the Sabha.

(v) If the Bidder fails to comply with a rule set out in this rule, that security, cash deposit shall be credited to the fund of the Pradeshiya Sabha.

361. A bidder shall be provided room for receiving bidding documents either by post or personally during office hours, at least until the day prior to the closing date of calling bids based on the payment of fee if any.

362. Any prospective bidder who wishes to inspect the bidding documents shall be provided room to do so for free of charge.

363. Room for collecting Bidding documents from the head office and sub office of the Sabha shall be provided.

364. If there is a prescribed fee for bidding documents, the fee shall not be too high to discourage bidders.

365. The Sabha shall keep a record of the issue of bidding documents.

366. The bidding period shall be reasonably sufficient for the preparation of bids.

367. Bids shall be received only at one location by,

- (i) mail under registered post; or
- (ii) Personal delivery against receipt to the officer authorized by the Sabha to receive such bids at the specified location;
- (iii) depositing in the sealed tender box identified for such purpose by the Secretary if so specified in the bidding documents.

368. There shall be a condition that all bids of the bidding documents shall be submitted in a sealed envelope.
369. Bids must be completed at the time specified in the Bidding Documents. Delayed bids shall not be accepted and shall be returned without opening them.
370. The tender committee is responsible for opening the bids. The Tender Committee may delegate such authority to the Opening Committee and shall consist of at least two members approved by the Tender Committee.
371. With the closing of bids, they shall be opened as soon as possible in the presence of the Bidders or their representatives who wish to attend.
372. Any bids received on or before the closing date for submission of bids shall not be rejected at the time of opening.
373. Bids marked as "Original" shall only be opened when opening bids. "Copy" shall not be opened.
374. If case of receiving an envelope marked "Withdrawal" on or before the closing date of the bid, the letter shall be opened first. The Bid Opening Committee shall not open the Bidder's original bid unless the Bid Opening Committee is satisfied with the contents of the letter contained therein. If in doubt, the original bid must be opened with the other bids. If there is any envelope marked "Modification" such shall be opened with the original bid.
375. The Bid Opening Committee shall read out the following to those present.
- (i) Name of each bidder and the amount stated in the Form of Bid
  - (ii) The presence/absence of a submission of a bid security, bid security declaration
  - (iii) Discount, if any discount is offered
  - (iv) Any other relevant information at the discretion of the Bid Opening Committee.
376. The proceedings of the opening of Bids shall be recorded in a prescribed format and the shall be signed by all members of the Bidding Opening Committee.
377. Immediately after the opening of the bids, the original bidding documents and the records relating to the opening of the bid shall be sealed together and handed over to the Secretary. The Secretary shall hand them over to the Chairman of the Evaluation Committee
378. The objective of Bid Evaluation is to determine the bid with the highest evaluated substantially responsive bid out of the bids received.
379. Bid evaluation process can be carried out under following stages.
- (i) Bid Examination:  
Determination of the Bidder's Qualifications, legitimacy of the bids, substantial response of Bidder
  - (ii) Evaluation of detailed bids  
Determine the maximum and lowest bid that is valued among the substantial bids received
  - (iii) Post qualification  
Determine the eligibility and experience of the evaluated minimum bidder
380. The following facts shall be verified when examining bids.
- (i) Shall be eligible for bid
  - (ii) Shall have signed the Bid
  - (iii) Legal validity of the Bid
  - (iv.) That the provisions of the Bidding Documents have not been excluded
381. In the event of any provision of Section 379 above is not ensured in respect of the Bid submitted, the relevant Bid shall be disposed of.

382. The Tender Committee shall, after a careful review of the Report of the Evaluation Committee and obtain necessary clarifications from the Evaluation Committee, implement any of the provisions in section (i) and (ii) below.
- (i) (a) Recommendations for awarding of tenders may be forwarded to the Sabha
  - (b) A request can be made to the Evaluation Committee to submit a report again having considered observations done by the Tender Committee.
  - (ii) If the Tender Committee continues to raise a specific issue in the Evaluation Committee Report, it shall be discussed with all members of the Evaluation Committee to reach an agreement on the issue. If the members of the Tender Committee cannot then take a unanimous decision on the issue, the decision of the majority of the Tender Committee shall be in force.
383. After submitting the recommendation of the Tender Committee to the relevant award to the Sabha, the Sabha shall select the winning bidder and decide to award it to the winning bidder.
384. The Secretary of the Sabha shall issue an acknowledgment letter to the Secretary of the Sabha after the decision of the Sabha regarding the award of the Bid within the validity of the Bid. The prospective bidder must be informed of the following requirements under the letter of acceptance.
- (i) Date of submission of security for the agreement
  - (ii) The date and place where the Sabha and the Bidder shall enter into the relevant Agreement and the date on which the proposals may be submitted
385. The dissatisfied bidder shall be informed summarizing the shortcomings of unsuccessful bidders, reasons for the failure of the bid, so as not to disclose the contents of the other bids.
386. Upon receipt of the Notice of Award, the Bidder who wishes to know the reason for not selecting his bid shall submit the request to the Chairman of the Sabha.
387. In the event of such a request to the Chairman, the information relating to the bid shall only be communicated to the relevant Bidder.
388. Upon completion of the requirements set forth in these Rules and the timely completion of the provisions of Section 19 and Section 174 of the Pradeshiya Sabha Act No. 15 of 1987, the Sabha and the Bidder shall enter into the relevant Agreement on a specific date and time.
389. The Secretary shall certify to the Chairman that the relevant draft Bill has been approved by the Sabha prior to its agreement with the Sabha and that the relevant security for the agreement has been completed.
390. With regard to the awarding of contracts,
- (a) Total number of bids received
  - (b) Name of the winning bidder
  - (c) The amount to which the contract has been awarded shall be disclosed in an appropriate communication medium.
- (i) When a Bid Security Statement is requested to be submitted along with the bid and when a particular bidder fails to fulfill a certain condition mentioned in such Bid Security statement, the Chairman shall immediately inform the Commissioner of Local Government regarding such failures and report it to the Sabha.
  - (ii) After such a reporting done by the Chairman, the bidder shall be given seven dates to respond for it.

- (iii) If a satisfactory response is not received for it, even after providing time for that purpose by the Chairman, the Secretary of the Sabha shall include the name of such party, to the Source of date on defaulters maintained by the Sabha.
391. Whatever previously mentioned contradictorily under these rules, rules mentioned under this paragraph, shall be prioritized and apply as necessary, regarding the implementation of private sector and participatory investment projects.
392. When implementing Sabha and Private sector and the participatory investment projects, the Sabha shall appoint a special Tender Committee and an evaluation Committee consisted with appropriate individuals.
393. Where a proposal has been passed by the Sabha to implement Private Sector and related investment project along with the proposals which are for the purpose of identified projects and hitherto unidentified projects by the Sabha, following requirement shall be completed.
- (i) The National Competitive Bidding procedure shall be followed for calling of bids.
  - (ii) Lands related to the implementation of projects shall ensure the existence without other obligations and with a clear and continuous possession.
  - (iii) Identification of the manner of getting the right of land to the Sabha
  - (iv) Identifying whether the project is a project decided under an agreement of proposal of the Sabha or a project proposed to be implemented identifying under the proposals.
  - (v) The Sabha shall have identified the gross estimate of the Sabha to the total investment.
  - (vi) If there are other requirements based on the necessity, for the implementation of such project without any hindrance, completion of all such requirements.
  - (vii) If a condominium plan has to be approved according to the nature of property invests subjected to a project, all the requirements shall be completed.
  - (viii) The minimum number of members in the Tender Committee shall be seven and it shall compulsorily include a member that represents the Chairman and the Sabha, Secretary of the Sabha, a member that represents the Commissioner of Local Government.
  - (ix) The Evaluation Committee shall be consisted of at least 05 members including a member with knowledge on the procedure and the implementation of Private and Public Partnership Projects.
  - (x) Obtaining the assistance from external consultants by the Evaluation Committee, under the guidance and supervision of the Evaluation Committee for the purpose of drafting of bidding documents and evaluation of bids.
394. Whatever previously mentioned contradictorily under these rules, rules mentioned under this paragraph, shall be prioritized and apply as necessary, regarding the leasing of the fair of the Sabha and giving meat stalls and fish stalls for short term lease, rent.
395. Annual leasing, renting shall be based on a calendar year.
396. When the properties given for lease, rent are properties entrusted to the Pradeshiya Sabha interms of the Section 16 and 18 of the Pradeshiya Sabha Act, Finance Committee's recommendations on the fulfillment of requirement mentioned in the relevant law in leasing, renting for the coming year shall be submitted to the Sabha through the Tender Committee.
397. The tender process on the property to be entered into agreement for the coming calendar year shall have been commenced from the 01<sup>st</sup> of September of the current year.

398. Determination of the Bid value in respect of the property shall be done based on a report of a Chartered Assessor.
399. At the first meeting of the tender Committee, it shall be decided that the Sabha has the legal right to enter into agreement in respect of all the properties to which the Sabha enters into agreement.
400. The Tender Committee shall make recommendations to the Sabha, whether advertisements are published by News Papers for calling of Bids or whether there are reasons for publishing the advertisements using alternative methods and if so, those alternative methods.
401. Recommendations of the most favorable winning bid shall be submitted to the General Council by the Tender Committee and the Finance Committee after submitting the recommendations of the Evaluation Committee on the eligible bids that has completed the requirements to the Tender committee. The evaluation of the recommendations of the Evaluation Committee, which has completed the eligibility bids, at the tender committee.
402. Upon the decision of the Winning Bidder, the Secretary of the Sabha shall notify the Winning Bidder in writing of the awards of the relevant thereto.
403. Upon giving the award to a winning bidder, in case of a failure to enter into the agreement on the date mentioned in the letter of acceptance or (with or without submitting reasonable justifications), the Tender Committee shall immediately meet and report to the Sabha the recommendations of the follow-up actions to be taken.
404. In the event that the lessee or renter has terminated the agreement having saved time during the year or contract period, the Tender committee may identify and recommend a bidder out of the eligible bidders from the relevant previous calling of bids as a contractor for the remaining time of the year; or the relevant Tender Committee for calling of bids shall recommend to the Sabha, what alternative option would be beneficial to the Sabha. For this purpose it is legal to call the bidders before the Tender Committee and discuss.
405. The Secretary shall promptly report to the Tender Committee on immovable property which has not been entered into agreement on or before the specific date given for agreement under a Grant Paper or failed to enter into a formal agreement or which has been given additional time during such period.
406. The Tender Committee shall submit its recommendations to the Sabha on measures to be taken within one week.
407. In the presence of more than one qualified bidder in respect of a property, if the Tender Committee recommends as the following favorable bidder, that bidder can be presented awards and it is lawful for the Tender Committee to give recommendations to follow the relevant steps consequently only up to the qualified Bidders.
408. Where there is no more than one qualified bidder on a property or when the eligible bidders are out for the award, the Chairman shall reinitiate the tender procedure in respect of the property in accordance with these rules.
409. When an immovable property is leased or rented, determination of its bid value, previous value and the rent shall always be based on the value attested by a Government or Private Chartered Assessor.
410. Whatever previously mentioned contradictorily under these rules, rules under this Chapter shall apply in relation to the sale of immovable and movable property owned by the Sabha,
  - (i) It shall be ensured by a special committee appointed for that purpose that there is no any obstruction in any way in respect of the sale of immovable properties owned by the Sabha, in terms of the conditions set forth in Transfer Documents under the relevant instrument in the manner of possession of Sabha or any other way.
  - (ii) After the Secretary submits a report under the above rule to the Chairman, the Chairman shall present a proposal to the Sabha for its approval and obtain the approval.

- (iii) The Permanent Tender Committee or the Tender Committee appointed for the purpose of the tender shall specifically identify the property relating to the tender purpose and, the Tender Committee shall be given the recommendations on the property values based on a chartered valuation where necessary in respect of the property to be sold under the Evaluation Committee parallel appointed for the same purpose or if there is a movable property, based on the assessment reports obtained from the persons with specialized knowledge.
- (iv) In the case of movable property, the Tender Committee shall determine the bid value of each item based on the separate valuation of the items and recommendations on the appropriate tender procedure to be utilized for maximum financial benefit to the Sabha on the said value shall be submitted to the Sabha. Based on the above recommendations, the tender procedure to be followed shall be decided by the Sabha.
- (v) In case of a immovable property, it shall be sold for the most favourable price identified on the calling of bids under a public auction notified through notices published for the public through nationally known newspapers and published through any other way as suggested by the Tender Committee.
- (vi) The bidding value of the tender process shall be obtained immediately having separately mentioned the goods to be sold at once under movable property and if there are reasons for getting bid values without considering as such items, relevant reasons shall have been decided at a meeting held jointly with the Evaluation Committee and the Tender Committee and approved by the Sabha.

411. Following provisions shall be given priority regarding long term leases, renting of lands, buildings of the Sabha irrespective of whatever mentioned under these rules.

- (i) In a tender procedure relevant of leasing, renting lands of the Sabha for a period longer than one year, the rules mentioned under this section shall be given priority regardless of whatever mentioned under another rule under these rules and the tender committee shall provide recommendations to the Sabha stating that the following matters are fulfilled.
- (ii) The tender committee shall provide recommendations to the Sabha that the provisions undersubsections (X), (XI) and (XII) of sub section (1) of section 19 of No.15 of 1987 regarding Pradeshiya Sabha are completed when a Pradeshiya Sabha is renting, selling or leasing its immovable properties (lands or buildings)
- (iii) Identification of the lessee party in respect of all buildings proposed to be leased by the Sabha shall be in a formal tender process described under these rules and it shall clearly state agreed lease period between such identified parties in the Tender Notice. Accordingly, the contract duration of the lease agreement should be considered as the proposed lease term in the tender notice on which it is based.
- (iv) The rights of the heirs can also be accepted only for the agreement period for an agreement for the duration of a contract with the lessee selected under the proper tender procedure for any lease period.
- (v) The above clause shall not preclude the acceptance of the term of the lease agreement of the building which was to be used only in the case of pre-financed construction, but to agree to extend it under the terms of the agreement.
- (vi) The Sabha can take action regarding when a building that is leased or rented out by the council, operated by contracted lease holders or renters, is removed for development purposes or for any other purpose, the awarding of alternate locations to the existing leasehold contractor only for the period of time the parties to the property have been contracted.
- (vii) These rules should not prevent the lease agreement with the lessee only for the remainder of the foreclosure period, as a rent based on the assessed value of the government when the lease is granted to the lessee under the new amenities of a shopping complex being built for development purposes.

- (viii) For every real estate leased or rented by a local government institution, the lease period during the contract period shall be revised every three years from the date of the agreement with respect to each building or land, on the valuation of the government assessor or a chartered assessor and successful conditions should be included in relevant tender notice and
- (ix) It should be published in tender notice that in addition to the tax amount, assessment tax should also be paid for the required tax period and should come to agreement accordingly.

#### **Charges payable to Pradeshiya Sabha**

- 412. All fees, other than stamp duty, charged by a Pradeshiya Sabha shall be the same as the charges made by the council in accordance with the provisions of the written law authorizing the local authority to determine such fees.
- 413. Stamp duty to be paid in respect of land transfers within the area of authority of the Pradeshiya Sabha shall be levied from time to time by the provincial council as prescribed by the provincial council or by any other written law.
- 414. Fees payable to the Pradeshiya Sabha can be paid in any manner provided under these rules, and no one shall be entitled to receive the service until such time as the service corresponds to a fee.
- 415. The officer who authorizes the payment of the fee should be satisfied that the requirements of the written law have been fulfilled in all respects before the payment of the prescribed fee.
- 416. Fee charged in case of a license to be obtained from a local government institution, the fee should be charged as the fee for issuing the license and should not be charged before issuing.
- 417. A document relating to business industries under an annual license shall be prepared according to the survey information done before 31st March of the current year and the authorized officer shall promptly lodge a complaint to the Magistrate's Court regarding the unlicensed industries and businesses by that date.
- 418. Following information should be included to the report prepared under the above article.
  - (i) Name of the industry or business
  - (ii) Grama Niladhari Division
  - (iii) Nature of industry/business
  - (iv) Assessment number, if there is any
  - (v) Name of the person who conducts the industry/business
- 419. The authorized officer shall certify that the value paid to the local government institution is the value of such payment.
- 420. Reports of fees made the fund of local government institution in respect of a calendar month should be submitted to the Secretary of the Pradeshiya Sabha.
- 421. An officer authorized by the Secretary to maintain such judicial proceedings relating to payments made to the Pradeshiya Sabha fund shall maintain a list of names.
- 422. The procurement in respect of goods, work, services information systems and supplies shall be made by the Pradeshiya Sabha in accordance with the regulations made by the National Procurement Commission in respect of such procurement guidelines.

#### **Working under direct labour**

- 423. Following steps should be completed in implementing projects under direct labour by a Pradeshiya Sabha.

- (i) In the case of projects carried out under direct labor by the Pradeshiya Sabha, work shall be carried out in accordance with the approved estimate and any modification thereof shall be approved by the council or the authority authorized by the council.
- (ii) The estimate that should be prepared regarding the work done by direct labour in a Pradeshiya Sabha should be approved by the Council.

424. The proper authority of the Pradeshiya Sabha should declare a financial range to be considered for estimate values under direct labour from time to time.
425. Information of labour used at every work field under direct labour, daily saving and information of workers should be maintained.

#### **Interim Provisions**

426. The financial reporting of a Pradeshiya Sabha shall be in compliance with the Sri Lanka Accounting Standards for Local Government Institutions with effect from 01.01.2020, regardless of the financial reporting basis used by 01.01.2019.

However, a duly accepted budget document by the council should be relevant from year 2020 under these regulations in parallel with the budget document which was effective for 2019 financial year before 31.12.2019.

427. The Pradeshiya Sabha should clearly state in its initial financial statements that they comply with the Sri Lanka Accounting Standards for Local Government Institutions and the following instances shall be considered as such initial publication by a Pradeshiya Sabha.

- (i) When financial statements have not been submitted for proceeding time periods.
- (ii) Presentation of the most recent pre-financial statements on an consistent basis with the Sri Lanka Accounting Standards for Local Government Institutions on all matters; or
- (iii) If the most recent pre-financial statements are presented in compliance with the Sri Lanka Accounting Standards for Local Government Institutions,

428. Notwithstanding anything mentioned in the financial statements prepared before 1<sup>st</sup> of January, 2020, the Assets and Liabilities Statements must be prepared in accordance with the provisions of these rules as at 1<sup>st</sup> of January 2020.

429. Under this section, following information should be included by a Pradeshiya Sabha in its initial statement of assets and liabilities except in situations where provisions are included in following sentences.

- (i) All assets and liabilities that are required to be recognized by the Sri Lanka Accounting Standards for Local Government Institutions should be recognized.
- (ii) Asset and liability items which are not allowed to be recognized by Sri Lanka Accounting Standards for Local Government Institutions should not be recognized.
- (iii) Under Sri Lanka Accounting Standards for Local Government Institutions, all the items recognized as components of different types of assets, liabilities or components, or components of one type of asset liabilities or equity under its previous basis must be re-classified.
- (iv) Sri Lanka Accounting Standards for Local Government Institutions shall be applied in measuring all the recognized assets and liabilities.

430. Accounting principles used by a Pradeshiya Sabha that uses the Accounting Principles of the Sri Lanka Accounting Standards for Local Government Institutions in its initial statement of assets and liabilities, may differ



from those used in the financial statements of the basis before January 1, 2020. Adjustments arise as a result of other circumstances or situations. Therefore, the Pradeshiya Sabha should identify as adjustments to the excess or deficit (or other category within net assets/ equity , if suitable) as of January 1, 2020, the date of transition to Sri Lanka Accounting Standards for Local Government Institutions.

431. In compliance with Sri Lanka Accounting Standards for Local Government Institutions, a Pradeshiya Sabha which presented its most recent financial statements can choose to use the revaluation value of a property, plant and equipment item which was used in presenting financial statements in compliance with Sri Lanka Accounting Standards for Local Government Institutions,
432. Since the carrying amount of that item is denoted by the such revaluation, that can be considered as presenting financial statements in compliance with this standard.
  - (a) Property, plant and equipment or property, plant, equipment classes that were not recognized in previous financial statements by a Pradeshiya Sabha.
  - (b) plant and equipment or relevant classes of property, plant and equipment acquired prior to the transition to Sri Lanka Government Accounting Standards for local government institutions for recognition and selection, to the market value as at the date of transition to Sri Lanka Government Accounting Standards for local government institutions
433. A Pradeshiya Sabha which made a selection in accordance with the preceding paragraph and has not identified any class or classes of property, plant and equipment, shall identify the market value as carrying amount of the property, plant and equipment in the relevant reporting class or classes on that date.
434. The Pradeshiya Sabha that recognized carrying amount according to above paragraphs should recognize the deficit or surplus as a benefit adjustment.
435. A Pradeshiya Sabha should submit a statement of its initial assets and liabilities (as of January 1, 2020) prepared by these standards as comparative information in its first financial statements complying with the Sri Lanka Accounting Standards for Local Government Institutions.
436. The Pradeshiya Sabha may , based on the recognizing and measuring principles used by the Pradeshiya Sabha in common objective financial statements present comparative information related to the pre-financial period of its first financial statements prepared using Sri Lanka Accounting Standards for Local Government Institutions ; and that matter should be mentioned in notes.
437. In explaining the transition to the Sri Lanka Accounting Standards for Local Government Institutions, a Pradeshiya Sabha should explain how, on the basis of its previous financial reporting, the transition to the Sri Lanka Accounting Standards for Local Government Institutions has affected its reported equity and financial performance.
438. A Pradeshiya Sabha that selected not to identify property, plant and equipment or a certain class or classes of plant and equipment should reveal the followings.
  - (i) Its selection of financial statements
  - (ii) Property, plant and equipment class or classes to which the selection relates
  - (iii) Identifying a certain property, plant or an equipment to which the selection is irrelevant due to borrowings; and
  - (iv) Identifying a certain borrowing mentioned in above (iii)
439. A property, plant, equipment or property of a particular class, plant or equipment must be recognized at the recognized market value, the date on which its value is recognized as market value and the manner in which that market value is obtained.

440. Things that a Pradeshiya Sabha shall include in first financial statements prepared using Sri Lanka Accounting Standards for Local Government Institutions to comply with the preceding paragraph.
- (i). A description of the nature of every change in accounting principles. And
  - (ii). A comparison of its net asset/equity according to the basis which was previously used for financial reporting with its net asset/weight determined according to Sri Lanka Accounting Standards for Local Government Institutions as at 01<sup>st</sup> January 2020, the date of transition to Sri Lanka Accounting Standards for Local Government Institutions.
441. Sri Lanka Accounting Standards for Local Government Institutions are effective for financial statements that cover the time periods ending on 31<sup>st</sup> December 2019 or after that. Before that application will be granted permission. If a Pradeshiya Sabha apply this standard for a time period ending before 31<sup>st</sup> December 2019, that matter shall be disclosed.
442. Rules of Pradeshiya Sabha (Finance and Administration) 1988 of Democratic Socialist Republic of Sri Lanka bearing number 554/5, published on 17<sup>th</sup> April 1989 are repealed from the effective date of these rules.
443. The Local Government Commissioner of the Western Province has the power in specifying forms and account codes regarding any relevant matter of implementing matters and rules which are specifically authorized under these rules.
444. Under these rules, unless the context otherwise requires,
- ‘Effectiveness’ as the relationship between actual results and service performance objectives;
- ‘Efficiency’ as the relationship between (a) input and output or (b) input and result;
- ‘Input’ as the resources used by the Pradeshiya Sabha to derive an output
- By ‘Output’ services rendered by the Pradeshiya Sabha to the Pradeshiya Sabha and to external recipients
- By the ‘Result’ the impact on the society that can be reasonably attributed.