

Dimbulagala Pradeshiya - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Dimbulagala Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of assets and liabilities as at 31 December 2021, Comprehensive Income Statement, Statement of changes in net assets/ equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Dimbulagala Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

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

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Policies

Audit Observation	Comments of the Council	Recommendation
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(a) Although the budgeted information prepared by a Pradeshiya Sabha in accordance with Rule No. 97 related to Pradeshiya Sabha financial administration, should be presented in the financial statements for the relevant period, budgeted information was not presented in the statement of assets and liabilities, statement of cash flows and significant accounting notes of the Pradeshiya Sabha as at 31 December 2021.	A local government prepares and submits its annual budget based on the standard formats provided by the rules in terms of sections 168 and 169 of the Local Council Act No. 15 of 1987. Therefore, budgeted information cannot be presented in the statement of assets and liabilities and the statement of cash flows.	Since the Pradeshiya Sabha Financial Administration Rules published in the Special Gazette of the Democratic Socialist Republic of Sri Lanka dated 03 July 2020 must be followed from 01 January 2020, budgeted information must be submitted as per the rules.
(b) Although the net book value of property, plant and equipment as on the last date of the year under review should be disclosed in the notes, including opening balance, annual depreciation and closing balance under	Agree.	The necessary disclosures in the financial statements should be made correctly.

depreciation of property and equipment, the said information was not disclosed under Note No. 16 in the financial statements of the year under review.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) According to the schedule of land, the total value was Rs. 193,732,600, but according to the financial statements as at 31 December 2021, the value of the land was stated as Rs.194,232,600, so the land value was overstated by Rs. 500,000.	A value of Rs.500,000 has been further accounted for under the heading of other lands in the Schedule of Lands. I inform that it will be corrected in the year 2022.	The value must be correctly identified and accounted for.
(b) As per EG 10.1 of Appendix 2 presented with the Sri Lanka Public Sector Accounting Standards for Local Governments, while accounting for assets under construction should be done on the basis of year-end completion percentage, due to accounting of the contract value irrespective of the percentage of completion regarding 13 buildings under construction which started construction during the year under review, the building value was over-accounted for by Rs.22,451,072.	I would like to inform you that the necessary activities are being carried out to correctly account for the assets under construction in accordance with the Sri Lankan Public Sector Accounting Standards for Local Government Institutions.	The value must be correctly identified and accounted for.
(c) The value of two projects with 0 percentage of completion on which construction work has been temporarily suspended as at 31 December of the year under review had been accounted for under buildings, therefore the building value was overstated by Rs.6,935,260.	With the on-going economic crisis, the construction work of the projects has been temporarily stopped, and I would like to inform you that the necessary action is being taken to account as an asset under construction.	As the percentage of completion is 0 percent, no value should be included under assets under construction.

- (d) Due to non-depreciation of assets totalling Rs.1,862,207 which added under corrections of accounting deficiencies in the year 2020, the depreciable value of the year under review was understated by Rs.99,045. I would like to inform you that necessary action will be taken to correct by adjusting the depreciation. Depreciation should be properly calculated and accounted for.
- (e) Due to accounting for under bridges of the estimated value of Rs.224,695,997 related to 17 projects, that had not been constructed, the value of property, plant and equipment and industrial creditor value had been overstated from that amount. I would like to inform you that necessary adjustments will be made and corrected. The correct value should be identified and accounted for.
- (f) Due to non-accounting of the value of 25 asset items of Rs.1,292,510 received from the Local Government Department during the year under review, the value of property, plant and equipment and capital grants had been understated from that amount. Agree. I would like to inform you that necessary adjustments will be made and corrected. Must be correctly accounted for.
- (g) Although the net value of property, plant and equipment should be shown in the statement of assets and liabilities, the property, plant and equipment was shown in the book value rather than shown in the net value. Accordingly, the provision for accumulated depreciation amounting to Rs.32,760,643 as at 31 December of the year under review shown in the statement of changes in equity and it was added to the accumulated surplus. I would like to inform you that necessary adjustments will be made and corrected. Disclosures must be made accurately.
- (h) Due to the fact that the amount of Rs.624,083 relating to 06 paid deposit balances during the year under review was included in the tender deposit balance, the tender deposit value was overstated from that amount. I would like to inform you that necessary adjustments will be made and corrected. Must be correctly accounted for.

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| (i) | Although the court fine income receivable as at 31 December of the year under review was Rs.26,935,949, as per the financial statements, the balance was Rs.26,164,616, and therefore the court fine income was understated by Rs.771,333. | I would like to inform you that necessary adjustments will be made and corrected. | Must be correctly accounted for |
| (j) | Due to accounting of stamp duty income of Rs.279,000 relating to 04 months from August to November 2020 as income of the year under review, stamp duty income was overstated by Rs.279,000. | I would like to inform you that necessary adjustments will be made and corrected. | Must be correctly accounted for |
| (k) | The water industry stock balance as at 31 December of the year under review, was understated by Rs.871,415. | I would like to inform you that necessary adjustments will be made and corrected. | Must be correctly accounted for |
| (l) | Contrary to EG 2.7 of Appendix 2 presented with Sri Lanka Public Sector Accounting Standards for Local Authorities, a sum of Rs.96,057,163 relating to projects under construction and projects cancelled during the year under review, had been credited to the comprehensive income statement as the recognition of the year on the Depreciated Basis, due to that the income for the year under review had been overstated by that amount and the unrecognized capital expenditure grant amount in surplus/deficit was understated by that amount. | I would like to inform you that necessary adjustments will be made and corrected. | Must be correctly accounted for |
| (m) | As the work of a project of laying block stones on a road was completed on 12 March of the year under review, while there is no value to be credited to the comprehensive income statement on the basis of the depreciation calculated in relation to that project as per the depreciation policy of the local council, the amount of Rs.4,520,000 received for | I would like to inform you that necessary adjustments will be made and corrected. | Must be correctly accounted for |

that project in the year 2020 should be shown under Capital Expenditure grants not included in Surplus or (Deficit) but the amount was credited to the Accumulated Fund.

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| (n) | Sundry Creditors amounting to Rs.1,321,532 payable as at 31 December of the year under review, had been under-accounted in the Creditors Account. | I would like to inform you that necessary adjustments will be made and corrected. | Must be correctly accounted for |
| (o) | No provision was made for the audit fees related to the year under review, and no arrangements were made to settle the audit fees of Rs.126,600 related to the previous year. | I would like to inform you that necessary adjustments will be made and corrected. | Action should be taken to ensure that audit fees are properly accounted for and settled. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 81,844,803 as against the excess of expenditure over recurrent revenue amounted to Rs. 20,167,989 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
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(a) Legal measures were not taken to recover the outstanding water fee revenue of Rs.13,297,828 due from 6752 water consumers in the form of 6381 private, 173 government organizations and 198 commercial organizations as at 31 December of the year under review and there was no separate identification of recoverable and non-recoverable values from that arrears.	I would like to inform you that necessary measures will be taken to reduce the arrears of water tax revenue to a significant level in the year 2022.	Arrangements should be made to recover the arrears of income.

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| (b) | As at 31 December of the year under review, the arrear rent income from 25 shops was Rs.1,694,401 and the arrear weekly market lease income from 05 weekly markets was Rs.2,238,631. Out of that it was not possible to take legal measures in relation to Rs.271,280 and Rs.1,282,758 respectively due to the lack of agreements, and the Sabha had not taken legal measures related to the recovery of the recoverable balances. | I would like to inform you that necessary measures will be taken to reduce the arrears of rental income to a significant level in the year 2022. | Arrangements should be made to recover the arrears of income. |
| (c) | No action was taken other than informing the concerned agencies through letters for recovery in respect of the outstanding balance of Rs.633,080 as Rs.61,000 from 79 markets, Rs.448,080 from 326 business enterprises, and Rs.124,000 from 131 industries relating to the year under review and an outstanding balance of Rs.1,634,655 before the year 2021. | I would like to inform you that the necessary measures will be taken to recover the arrears of income. | Arrangements should be made to recover the arrears of income. |

3. Operational Review

Audit Observation

Action had not been taken to recover the 06 vehicle and machinery receivable rental balances of Rs.152,134 in relation to the years 2019 and 2020 and as at 31 December of the year under review, that value was Rs.646,734, of which 13 balances amounting to Rs.240,284 were due from a members of the council.

Comments of the Council

I would like to inform you that the necessary arrangements have been made for settle immediately.

Recommendation

Arrangements should be made to settle.