

Homagama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Homagama Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of Assets and Liabilities as at 31 December 2020, Comprehensive Income Statement, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the National Audit Act No 19 Of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Homagam Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 of this report.

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

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

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

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

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

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

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) The following recommendations made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

| Paragraphs Reference | Audit Observation | Comment of the Council | Recommendation |
|----------------------|---|--|---|
| 1.2.1(c) | Stocks valued at Rs. 2,531,143 which did not physically exist in the stock had been recorded as stock in the stock account. | Action will be taken to correct in future. | The physical stock balance should be calculated and shown in the accounts at the end of the year. |
| 1.2.2 | A difference of Rs.104,342,543 was observed in between the balances shown in the financial statements submitted for audit and the balances shown in the utility books / schedules | Action will be taken to correct in future. | Action should be taken to correct the accounts by comparing the changes in the relevant balances. |

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Noncompliance with the Sri Lanka Public Sector Accounting Standards for Local Government Authorities

| | Non-compliance with reference to the relevant standard | Comments of the Council | Recommendation |
|-----|---|-------------------------|-------------------------------|
| (a) | According to Section 3.9, the budgeted information in the financial statements, the initial budget, the final budget and any quantitative changes between them, were not disclosed. | Agreed. | Should comply with standards. |

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| (b) | The value of roads, culverts and bridges constructed before the year 2020 had not been taken into account as per Section 6 and the estimated value of roads, culverts and bridges constructed in the year 2020 amounting to Rs. 240,360,314 had been shown under Property, plant and equipment. | Agreed. | All property, plant and equipment prior to the year 2020 should be documented and accounted as they can be identified separately according to the Circular. |
| (c) | Land, Buildings and Library Books had not been re-valuated in terms of Section 4.6. | Agreed. | Lands, buildings and library books should be re-valuated and accounted in accordance with the standards.. |
| (d) | In terms of Article 9.9 there was a equity of assignments from the Government which did not satisfy the liabilities in other comprehensive revenues and it was listed separately as a separate balance of Rs. 189,378,640 in the Statement of Assets and Liabilities. however the method of identifying that value was not disclosed. | Agreed. | Should comply with standards. |
| (e) | The methodology used to determine the work in progress contract work under Section 10.9 had not been disclosed. | Agreed. | Should comply with standards |
| (f) | The value of non-refundable receivables for transactional and non-transactional transactions in accordance with Article 15.13 of the Council and its approval had not been disclosed separately. | Agreed. | Should comply with standards. |

1.6.2 Accounting deficiencies

| Audit Observation | Comment of the Council | Recommendation |
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| (a) 21 trailers valued at Rs. 4,903,770 , Kubota four wheeled tractor, 04 bicycles, a three wheeler and 06 garbage carts and a trailer that could not be find the value and compactor received as donation had not been revaluated and account as Property, plant and equipment. | Agreed. | All vehicles and machinery should be properly re-valuated and accounted. |

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| (b) | The roads, culverts and bridges valued at Rs.188,287,828 which was at working progress during the year under review and 7 building spent Rs.36,028,069 which were under construction had been accounted as building. | Agreed | Action should be taken to account correctly. |
| (c) | The computers accounted as Creditor Rs.526,500, office equipment valued at Rs.115,155, fixtures valued at Rs.15,444, furniture valued at Rs.1,383,050 and fire protection clothing valued at Rs. 60,390 had been accounted as property plant and equipment instead of being accounted as working progress. | Agreed. | Action should be taken to account correctly. |
| (d) | Provincial Councils work Creditors of Rs. 6,675,117 and General work Creditors of Rs.42,060,855 had been accounted as recurrent expenditure instead being accounted as work in progress during the year under review. | Accept that the value of the General work creditors is as Rs. 42,060,854. | Action should be taken to account correctly |
| (e) | A tipper truck purchased in 2020 for Rs. 4,640,000 and it had been re valued accounted as Rs. 4,268,800 under additions in the year 2020. As a result, the value of the motor vehicle by Rs.4,268,800 and depreciation by Rs. 185,600 had been over stated in account. | Agreed | Action should be taken to account correctly |
| (f) | Library books valued at Rs. 66,580 had been received as donations during the year under review. These donations had not been recorded as receipts and it was credited to the Reserve and Allocation Account, therefore the equity had been over stated. | Agreed | Action should be taken to account correctly |
| (g) | The value of government transfers for non-recurring expenditure during the year under review was Rs. 18,290,398. However, it was also stated in the declaration of assets statement and liabilities as Rs. 189,378,639. Further, the unidentified capital grant was Rs. 171,088,241 it it had been accounted as Rs. 189,378,639. | Accept the capital contribution value to be identified in the extensive income from the capital contribution value for the year under review as Rs.18,290,390. | Capital grants should be accurately identified and accounted. |

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| (h) | A loss amounting to Rs. 2,177,441 had been occurred by a fire broke out on 25 March 2015 at the Sabha's damaged items warehouse. Further damage recoverable from the relevant security division of Rs.612,895 had not been entered in to accounts . | Agreed | Action should be taken to account correctly |
| (i) | The credit provision had not been done for the body building equipment received to the stored in the year 2017 and Rs. 4,586,387 had been paid under the Provincial Council Stores Advance for the year 2018 for that equipment. Due to non-correction of those deficiencies the accumulated fund and the unidentified storage balance had been over-accounted. | Agreed | Action should be taken to identify and correct unidentified storage balances. |
| (j) | The fixed deposit interest for the year 2019 amounting to Rs.301,727 had been accounted as interest for the year under review and the interest due for the year under review amounting to Rs. 215,364 had not been accounted. | Agreed | The interest on deposits for the year should be accurately identified and accounted. |
| (k) | Office equipment valued at Rs. 1,499,952 purchased in the year 2020 had not been accounted under the property, plant and equipment. | Agreed | Properly, plant and equipment should be identified correctly and accounted. |
| (l) | Machinery, furniture and office equipment purchased prior to 2020 had not been re-valuated in accordance with Section 4.6 of the Sri Lanka Public Sector Accounting Standards for Local Government Authorities. | Agreed | All machinery, furniture and office equipment should be re-valuated and accounted. |
| (m) | Purchases of properties, plants and equipment during the year under review were Rs.61,671,945, however it had been shown in the cash flows statement as Rs.56,595,785. Therefore the cash outflow for purchase of property, plant and equipment had been under stated by Rs. 4,712,160. | Agreed | Action should be taken to prepare the cash flow statement correctly. |

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| (n) Interest income in the year under review was Rs.7,465,952. However, it had been shown in the cash flow statement as interest income under the cash flow generated from the investment activities as Rs. 5,938,407. | Agreed | Action should be taken to prepare the cash flow statement correctly. |
| (o) According to Chapter 4 of the Sri Lanka Public Sector Accounting Standards for Local Government Authorities, the value of roads, culverts and bridges constructed before the year 2020 was not taken into account and only the estimated value of roads, culverts and bridges constructed in the year 2020 amounting to Rs.240,360,314 had been accounted. | Agreed | All roads, culverts and bridges should be surveyed and accounted. |

1.6.3 Unreconciled control account or report

| Audit Observation | Comment of the Council | Recommendation |
|---|-------------------------------|--|
| ----- | ----- | ----- |
| There was a difference of Rs.59,895,335 between the value according to the financial statements and the value according to the utility books / schedules in respect of 10 accounting items. | Agreed | Differences need to be identified and corrected. |

1.6.4 Unauthorized transactions

| Description of non-authoritative transactions | Comment of the Council | Recommendation |
|--|-------------------------------|--------------------------------------|
| ----- | ----- | ----- |
| (a) Approval had not been obtained from the relevant Provincial Councils and Local Government to write off of debtors amounting to Rs.13,996,612 for the period from 2014 to 2019. | Agreed | A proper approval should be obtained |
| (b) Creditors amounting to Rs. 13,411,064 had been write off during the year under review without Shaba decisions. | Agreed. | Proper approval should be obtained. |

1.6.5 Lack of documentary evidence for audit

| Audit Observation | Comment of the Council | Recommendation |
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Due to non-submission of required information, 07 accounting items amounting to Rs. 118,024,519 could not be satisfactorily vouched during the audit.

Agreed

Action will be taken to submit sub registers.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 216,747,584 as compared with against the revenue over recurrent expenditure amounted to Rs. 249,970,498 in the preceding year.

2.2 Revenue Administration

2.2.2 Performance of Revenue Collection

| Audit Observation | Comment of the Council | Recommendation |
|--------------------------|-------------------------------|-----------------------|
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(a) The assessment due to the Council as at 31 December 2020 was Rs. 57,260,035 and the Sabha had not taken action to recover it.

Inform you that the Covid virus epidemic in the year 2020 affected the proper collection of tax arrears.

Action should be taken to collect the arrears expeditiously.

(b) A license signed by the Executive Secretary ordering for the recovery of arrears in terms of Section 158 (1) of the Pradeshiya Sabha Act No. 15 of 1987 should be issued to the Collecting officer of the Pradeshiya Sabha with the name of the officer. However, it was observed that judging licenses had not been issued in respect for the arrears of Rs. 17,150,019.

Inform you that the Covid virus epidemic in the year 2020 affected the proper collection of tax arrears.

Arrangements should be made in accordance with the Pradeshiya Sabha Act regarding arrears of taxes.

3. Operational review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradesheeya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation

The Pradeshiya Sabha had received a income of Rs. 9,148,179 by 3188 applications received for road repairs. 90 percent of the road repair had not been done by the Pradeshiya Sabha. Accordingly, it was observed that despite earning revenue, the Pradeshiya Sabha had not been able to provide the required service to the public without delay.

Comment of the Council

A systematic form has been prepared and the action has been taken to prepare formal mechanism for processing complaints and is being used upon accordingly.

Recommendation

Road repairs should be done quickly.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation

Solid waste management

There are 91 Grama Niladhari Divisions in the council area however about 50 of them collect garbage. 35 tons of garbage is collected daily and segregated and sent to the Duwawatta Garbage Yard in the centre of Homagama as degradable and non-degradable garbage and transported to the Karadiyaana by a contractor and Rs.13,370,864 to a private company and Rs.6,370,230 to a Waste Management Authority had been paid in the year under review for transport of garbage. The annual waste management plan had not been prepared in accordance with the Section 93 of the Pradeshiya Sabha Act and a systematic program to transport garbage the council had not been prepared as it costs around Rs. 20 million every year despite having vehicles owned by the council.

Comment of the Council

When preparing a plan for waste management, it is necessary to seek the assistance of consulting institutions in waste management. However it was unable to do so due to the Covid epidemic in recent years. The Western Provincial Waste Management Authority is preparing an annual plan for this year 2022 in line with the five year plan. The vehicles owned by the Sabha were not sufficient to operate in 91 Grama Niladhari Divisions and it was very difficult to use vehicles for other services.

Recommendation

Solid waste should be managed efficiently.