

Dompe Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Dompe 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, 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 provisions of the National audit act No.19 of 2018 and the Sub-section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. My comments and observations which I consider should be report to Parliament appear in this report.

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

1.2. Basis for Qualified Opinion

I express qualified opinion based 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, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha;
- Whether it has performed according to its powers, functions and duties; and

- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

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

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations which I made on financial statements for the preceding year had not been implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Reference to the Relevant Standard	Non -compliance	Comments of the Council	Recommendation
3.6	Comparative information regarding the previous comparable period for all the amounts presented in the current period's financial statement had not been comparatively disclosed.	It is informed that the facts will be revealed in the submission of accounts for the year 2021.	It should be disclosed in financial statements.
10.22	If the receivables from non-recoverable exchange transactions were written off during the accounting period as per the Extraordinary Gazette Notification No.2155/8 dated 24 December 2019 No.227 (vi), although the value and authorization for the writing off should be disclosed in the		

financial statements, non-disclosure of written off property loan interest receivable amounting to Rs.278,766 in the financial statements.

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| 11.10 | Although contingent liabilities should be disclosed, failure to disclose of the cases filed in the Supreme Court on 12 November 2020 by a granite vendor against the Sabha. | It is informed that the facts will be revealed in the submission of accounts for the year 2021. | It should be disclosed in financial statements |
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1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Seven fixed assets items purchased during the year under review amounting to Rs.6,549,083 had been credited to the cash book and debited to expenditure and although the assets accounts should be debited and credited to the expenditure account to capitalize on those assets, as a result of the debiting of asset accounts by journal No. 37 and crediting it to the revaluation account, the revenue for the year under review had been understated.	It will be corrected in the final financial statement of the year 2021.	Fixed assets should be accurately capitalized.
(b) Although the fines levied for arrears of trade stall rent and arrears of market premises were Rs.7,210 and Rs.77,874 should be debited to the arrears of rent account and credited to the surcharge income account respectively, due to the debited to the surcharge expenditure account and credited to arrears of rent accounts, the rent for the year under review had been reduced by Rs.77,874.	It will be corrected in the final financial statement of the year 2021.	Understatement in accounts is need to be corrected.
(c) Although the surcharge recovered for the arrears of tender rent amounting to Rs.74,701 should be debited to the arrears of tender rent account and credited to the	It will be corrected in the final financial statement of the year 2021.	Understatement in arrears of tender rent accounts should be corrected.

surcharge income account, due to the credit to the arrears of tender rent account and debiting to the surcharge account, the arrears of tender rent had been understated by that amount.

- (d) As a result of receipts of rates for the next year amounting to Rs.911,337 was accounted for as income for the year under review, the rates income for the year under review amounting to Rs.911,337 had been overstated and arrears of rates income rent had been understated by that amount. It will be corrected in the final financial statement of the year 2021. Accounts should be corrected.
- (e) Although a stock of Rs.48,469 which was removed from the general stock during the Board of Survey of the year under review should be credited to the general stock account and debited to the stock disposal account, the stock account had been debited and credited to expenditure account. As a result, the general stock account had been overstated by Rs.48,469 and the expenditure had been understated. It will be corrected in the final financial statement of the year 2021. Stock accounts should be corrected.
- (f) Although out of the capital grants received during the year amounting to Rs.108,362,123, a sum of Rs.10,836,212 after computing the relevant amount for the year as a percentage of the relevant depreciation should be transferred to the transfers from government for non-recurrent expenditures account, the entire amount had been transferred to that account and as a result, the surplus for the year under review had been overstated by Rs.97,529,911. It will be corrected in the final financial statement of the year 2021. Accounts should be corrected.
- (g) The credit balance of the suspense account remaining from the preceding year amounting to Rs.2,977,000 had not been settled even by 31 December of the year under review. It will be corrected in the final financial statement of the year 2021. It should find the reasons for the occurrence of suspense account balance and correct.

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| (h) | As a result of the revenue identified to the depreciation percentage out of the fixed assets valued at Rs.850,554 received as donations from the Disaster Management Unit during the year under review had not been credited to the revenue amounting to Rs.94,909, the surplus for the year under review had been understated by the equivalent value. | It will be corrected in the final financial statement of the year 2021. | Actions should be taken to do necessary adjustments and correct. |
| (i) | Although the capital expenditure incurred during the year under review amounting to Rs.148,551,446 should be debited to asset accounts and the unfinished projects to the work-in-progress account, the total amount had been accounted for as an expenditure of the year. | It will be corrected in the final financial statement of the year 2021. | Accounts should be corrected by work-in-progress. |
| (j) | As a result of annual depreciation of Rs.37,558,615, for the total value of fixed assets for the year under review amounting to Rs.1,749,948,436 was not accounted for as an expenditure for the year under review, the surplus had been overstated by that amount. | It will be corrected in the final financial statement of the year 2021. | Depreciation account should be corrected in preparing the financial statements for the year 2021. |

1.6.3 Unreconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
A difference of Rs.18,240,268 was observed in between the balances shown in primary documents pertaining to 02 account items totalled to Rs.48,358,359 shown in the financial statements.	This will be corrected in the submission of final accounts for the year 2021.	The reasons for the changes need to be identified and corrected.

2. Financial Review

2.1 Financial Results

The income exceeded the recurrent expenditure of the Sabha for the year ended 31 December 2020 as per the financial statements submitted was Rs.187,187,134 and the income exceeded the recurrent expenditure of the preceding year was Rs. 8,560,194 .

2.2 Revenue Administration

2.2.1 Rates and Taxes

Audit Observation

Although the Pradeshiya Sabha area itself has been declared as a developed area by the Gazette Notification of the Socialist Republic of Sri Lanka dated 25 August 2017 No. 1493, it was observed that the rates have been recovered, only from 10729 properties by the year 2020, and out of the rates balance of Rs.7,257,081 as at 31 December 2020 actions had not been taken to recover the balance of the arrears of rates amounting to Rs. 39,364 for 5-10 years, Rs.179,375 for 3-5 years, Rs.1,265,481 between 1-3 years as per the age analysis.

Comments of the Sabha

Although the Dompe administrative area has been declared as a developed village, because there are so many poor and underprivileged areas, the approval of the Sabha has not given to impose rates on the entire area. Accordingly, actions are being taken to impose rates under several stages. A sum of Rs.1,992,936 has been recovered from the arrears remained as at 31.12.2020 and it has been referred to the Governor for approval to write off Rs.160,383 from several unrecoverable properties.

Recommendation

Actions should be taken to impose rates and to collect arrears of income in terms of the Gazette.

2.2.2 Other Income

Audit Observation

Actions should be taken to recover an income of Rs.110,000 receivable from 37 telephone towers in the Sabha area.

Comments of the Sabha

The institution has been made aware to pay the amount.

Recommendation

Actions should be taken immediately to recover the arrears of income.

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

3.1 Solid Waste Management

Audit Observation

Although according to the term 1.5 of the agreement entered into between the Central Environmental Authority and the Dompe Pradeshiya Sabha on 03 August 2010 for the construction of a 12 acre sanitary landfill project, actions should be taken to formally hand over the project site and construction to the Dompe Pradeshiya Sabha after the completion of the construction work, though the construction of the project was completed by the end of 2014, actions had not been taken to hand over. The garbage of the Pradeshiya Sabha is being dumped in this landfill and it was observed that the 6 tractors and compactors and 25 employees have to be deployed for this and a sum of Rs.54,937,000 had to be spent for this in the year 2020 and further, the Sabha had lost the revenue that could have earned for about 6 years. The Director of the Central Environmental Authority had stated as the reasons given for not transferred that there was no possibility of a transfer because of the objectives of disposal of landfill had not been achieved.

Comments of the Sabha

As the Central Environmental Authority did not make a formal transfer to the Dompe Pradeshiya Sabha, the Dompe Pradeshiya Sabha has taken steps to formally inform the relevant parties directly to the Central Environmental Authority and other related Departments and the Hon. Members of Parliament representing the area. There was also a special discussion in this connection with the Governor and the relevant officials and it was not possible to reach a permanent solution.

Recommendation

It should be taken over to the Council in terms of the agreement.