

## Homagama Pradeshiya Sabha - 2022

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### **1. Financial Statements**

#### **1.1 Adverse Opinion**

The audit of the financial statements of the Homagama Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out 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 Sub-section 172(1) of the Pradeshiya Sabha Act, No.15 of 1987. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.6 of my report, the financial statements do not give a true and fair view of the financial position of the Homagama Pradeshiya Sabha as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Authorities.

#### **1.2 Basis for Adverse Opinion**

An adverse opinion on financial statements will be expressed 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 adverse 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 determines 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 Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Sabha.

#### **1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Sabha's 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Sabha;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the 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 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha are 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 following recommendations made by me regarding the financial statements for the previous year, have been included in the financial statements as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

### 1.6.1 Audit Observations on the Preparation of Financial Statements

#### 1.6.1 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) A sum of Rs. 142,433,000 had been brought to account based on values of contract estimates as general works creditors of the year under review.	The sum of Rs. 142,433,000 for general works creditors had been allocated based on the estimated amount and action will be taken to write off the remaining amount or the surplus from the creditors register in preparing final accounts of the year 2023.	Action should be taken to account accurately.
(b) The value of 06 lands amounting to Rs.6,067,500 included in the Register of Assets, had not been brought to account.	Action will be taken to include the value of lands mentioned below, not included in the schedule, in the schedule of the year 2023 and to rectify once the original deeds are found out.	Lands should be identified correctly and brought to account.
(c) Instead of making adjustments to the Assets and Liabilities Accounts relating to 8 transactions made during the year under review, a sum Rs.69,176,112 had been debited to the Work-in-Progress Account.	Action will be taken to rectify using journal entries through the final account of the year 2023.	Action should be taken to account the transactions to relevant Assets and Liabilities Accounts accurately.

#### 1.6.2 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
A difference of Rs.2,043,248 was observed between the Rates Account and Registers.	Overcharges had been added twice and it should be eliminated and rectified.	Action should be taken to rectify by identifying the differences accurately.

### 1.6.3 Documentary Evidence not made available for Audit

Item	Comments of the Sabha	Recommendation
Detailed schedules relating to 2 items of accounts totalling Rs.68,739,150 had not been made available. As such, those could not be satisfactorily vouched in audit.	Comments had not been made.	Checkable documents should be made available.

## 1.7 Non-compliances

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
Section 128 of the Pradeshiya Sabha Act, No. 15 of 1987	A number of 18 lands including buildings, playgrounds and herbal gardens possessed by the Sabha and 36 cemeteries had not been vested in the Sabha.	Comments had not been made.	Expeditious action should be taken to confirm the ownership.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the expenditure over revenue of the Sabha for the year ended 31 December of the year under review was Rs.37,738,951 as against the revenue over expenditure of Rs. 215,580,460 of the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Revenue Source	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December 2022	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December 2022
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	137,990,912	283,704,571	170,489,809	117,009,558	95,552,398	157,163,639	86,947,680	473,754,200
(ii) Rentals	17,167,850	240,392,750	13,463,734	226,929,015	19,557,700	16,325,351	15,250,851	6,474,500
(iii) License Fees	6,100,556	4,062,484	3,946,625	115,859	6,520,634	4,476,838	4,475,838	1,000
(iv) Other Revenue	359,252,660	981,255,856	431,474,550	549,781,305	293,435,630	277,520,174	272,992,316	4,764,707
<b>Total</b>	<b>520,511,978</b>	<b>1,509,415,661</b>	<b>619,374,718</b>	<b>893,835,737</b>	<b>415,066,362</b>	<b>455,486,002</b>	<b>379,666,685</b>	<b>484,994,407</b>

### 2.3 Performance in Revenue Collection

Observations on the performance of the collection of revenue of the Sabha, are as follows.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) <b>Rates</b>  The value of rates recoverable to the Sabha as at 31 December 2022 amounted to Rs.117,006,559 and these rates had not been recovered so far.	A sum of Rs.22,998,260 of the arrears totalling Rs.117,006,559 as at 31.12.2021 had been settled and as such, the arrears at present amounts to Rs.94,008,299.	Prompt action should be taken to recover the arrears of rates.
(b) <b>Court Fines and Stamp Duty</b>  Court fines and stamp duty receivable as at 31 December of the year under review from the Chief Secretary and other authorities of the Pradeshiya Sabha were Rs.20,448,623 and Rs.528,133,654 respectively.	The Provincial Department of Revenue has been briefed for obtaining information on court fines and stamp duty and once receiving relevant information, registers of the Sabha will be updated.	Prompt action should be taken to recover the court fines and stamp duty.

### 3. Operating Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Action had not been taken to settle the value of revenue amounting to Rs.226,800,000 from ground rental, billed erroneously since the year 2014 due to an error in Section 03 of the Agreement entered into for the Meegoda Super Market Complex.	This amount was recoverable due to a problematic situation in Section of the Agreement. No action whatsoever has been taken so far regarding the payment of arrears by the Management of the Economic Centre.	Accurate arrears should be recovered once the agreement is rectified.
(b) Values of 8 lands recorded in the Register of Assets, had not been verified.	The value of lands owned by the Homagama Head Office, which was not included in the schedule, will be included in the schedule 2023 and rectified once finding out the original deeds thereof.	Action should be taken to value the lands and to adjust them to Assets Accounts.

### 3.2 Operating Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
<p><b>Approving Blocks of Land and Building Plans</b></p>	<p>This has occurred due to shortcomings in applications. Action will be taken to inform the applicants again to remedy the shortcomings in applications expeditiously.</p>	<p>Action should be taken to grant the approval expeditiously for dully filled applications.</p>

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

Audit Observation	Comments of the Sabha	Recommendation
<p><b>Non-implementation of Projects</b> ----- Even though provision of Rs.5,500,000 had been made by the annual budget for performing 2 functions indicated in the Action Plan, those activities had not been completed.</p>	<p>(i) The said project had to be abandoned halfway due to failure in providing calves duly by the relevant institution. (ii) Comments have not been made.</p>	<p>In making provision for projects, the feasibility of implementing them should be verified. It should be implemented in future according to the Corporate Plan.</p>

### 4.2 Environmental Observations

Audit Observation	Comments of the Sabha	Recommendation
<p><b>Solid Waste Management</b> Garbage is collected in about 50 out of 91 Grama Niladhari Divisions in the area of authority of the Sabha. About 35 Tons of garbage are collected per day and dumped on the Duwa Watta garbage yard located in the middle of Homagama. No attention had been drawn towards the ugliness, stench and pollution of the city by dumping garbage on the said garbage yard.</p>	<p>A project has been commenced in collaboration with the Japan International Cooperation Agency for the effective management of non-decaying waste collected at present.</p>	<p>Attention should be drawn towards the place of garbage collection.</p>