

Damana Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Damana Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising Statement of financial position as at 31 December 2022, Statement of Financial Operations, 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 the 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 accompanying financial statements give a true and fair view of the financial position of the Damana Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

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 Generally Accepted Accounting Practices, 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observations	Comments of the Council	Recommendations
(a) In relation to two fixed deposit accounts, the amount of Rs. 24,071 of the fixed deposit and the amount of Rs. 47,417 of interest income had been under accounted.	It will be credited to the income of the relevant year from the year 2023.	Should be properly accounted.
(b) Court fine income receivable of Rs. 185,917 had not been accounted in respect of the months of November and December of the reviewed year.	Has been credited to income for the year 2023.	- Do -
(c) Under PT 1 and PT 1 2nd 50% of the Regional Development Assistance Project, the domestic poultry cage preparation and littering phase - 01 and phase 02 project proposals worth Rs. 6,000,000 were not been approved, but it had been accounted as industry debtors and industry creditors.	That amount will be removed from the accounts.	- Do -
(d) The Damana Alahena Stadium modernization project was implemented under the supervision of the council and the settlement of bills was done through the office of the Assistant Commissioner of Local Government, but the local council had been accounted the value of the project as industrial creditors and industrial debtors of Rs. 4,645,470.	- Do -	- Do -
(e) The value of Rs. 295,589 had not been capitalized in the project related to electrical work of Helagampura Compost Yard, which was completed in the year under review.	That is capitalized on 30 June 2023.	- Do -
(f) An amount of Rs. 930,826 incurred for the project to improve facilities for citizens in front offices with equipment and improved systems under Regional	- Do -	- Do -

Development Assistance Project (PT 1) had not been capitalized.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
Written evidence such as schedules, fixed asset documents, balance confirmations and assessment tax documents etc. in relation to 09 accounting subjects which a sum of Rs. 2,859,183 in the financial statements had not been submitted for audit.	From the year 2016 the assessment register is maintained computerized and the receipts of the year are balanced. There is no information related to 08 balances from 2010 or earlier.	Evidence should be submitted to confirm the account balances shown in the financial statements.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 2,344,297 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 1,365,078 in the preceding year.

2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
The amount of Rs. 150,000 recorded in the bank reconciliation statements belonging to the local council as bank errors since January of the year under review had not been settled.	Although discussed with the bank, it was not rectified and the relevant documents have been forwarded to the Assistant Local Government Commissioner's Office and the settlement will be made immediately upon approval.	Actions should be made to settle.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the chairman, the details relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	720,907	815,706	494,264	1,799,725	770,907	719,307	876,493	1,478,283
ii. Rent Income	3,585,000	1,914,501	854,593	1,876,723	4,099,000	3,152,914	3,056,516	816,814
iii. License Fees	1,020,000	446,850	446,850	83,750	1,693,000	1,282,450	1,282,450	83,750
iv. Other revenue	2,970,400	2,544,562	2,544,562	-	5,165,500	3,993,117	3,329,337	663,780
Total	8,296,307	5,721,619	4,340,269	3,760,198	11,728,407	9,147,788	8,544,796	3,042,627

2.3.2 Revenue Collection Performance

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observations

Comments of the Council

Recommendations

(a) Assessments and Taxes

The balance of outstanding assessment was Rs. 1,568,875 as at 31 December of the year under review.

03 posts of revenue administrator have been vacant for more than a year. Therefore, even though the related activities cannot be carried out on the scheduled date, the currently temporarily appointed revenue administrator is working to carry out the necessary activities.

According to the provisions of the Act, the arrears income should be recovered promptly.

(b) Rentals

The outstanding rent balance was Rs. 1,701,919 as at 31 December of the year under review and the council had not been taken any legal action to recover the arrears.

Due to the absence of revenue administrators, there are difficulties in revenue collection and legal activities. The currently temporarily appointed Revenue Administrator is working to carry out the necessary activities.

The arrears income should be recovered promptly as per agreements.

3. Operational Review

3.1 Identified Losses

Audit Observations	Comments of the Council	Recommendations
(a) While the former chairman of the local council was returning from attending a meeting in the cab of the council on 09 May 2022, the cab was attacked in the midst of the quarrel and set on fire, the cab was completely damaged and the loss to the vehicle was Rs. 8,500,000, according to the initial report submitted in terms of Financial Regulation 104(3), but the amount received as insurance compensation was Rs. 5,000,000 and the local council had incurred a loss of Rs. 3,500,000.	Accepted. Since the cab was last valued in the year 2017, the insurance certificate was obtained as per that value.	An investigation should be conducted and actions should be taken to recover the loss.
(b) The local council had been incurred a loss of Rs. 48,400 due to enter in the inventory registers and made payment for 05 rolls of 7/0.53 wire worth of Rs. 48,400 of the street lighting equipment purchased to the local council under the Local Government Strengthening Recurring Program – 2021, which were not received at the warehouse.	Actions will be taken to proceed.	Actions should be made to recover the loss and formalize internal control practices.

3.2 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
(a) A provision of Rs. 6,000,000 had been approved for 02 projects to establish 02 sustainable energy systems in the local council and Higurana market under PT 1 and PT 1 2nd 50 of the Regional Development Assistance Project. These projects, which were supposed to be implemented in the year 2021 and 2022, were stopped due to the emergence of implementation problems and instead, approval was sought for 02 projects to the domestic poultry cage preparation and provide chicken litters from November 2022, but approval had not been received even at the audit date of 08 June 08 2023. Thus, it was not possible to	An amount of Rs. 6,000,000 as Rs. 3,000,000 per respective project has been sent for approval for poultry, so the project can be completed immediately after the approval.	Project proposals that can be implemented at the local council level should be submitted and the projects should be completed within the stipulated time.

achieve the desired objectives from the allocation of Rs. 6,000,000 allocated to the local council, due to not preparing and submitting project proposals that can be implemented at the local council level.

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| (b) | It was observed that the agreements of 43 shops owned by the council are not formal and issues of ownership of shops, problems of interim leases and problems of collection of arrears may arise in renting out shops without valid agreements, so urgent attention should be paid to updating the agreements. | That the deficiencies in the agreements will be corrected as soon as possible and the problems will be resolved in the future. | Agreements should be updated. |
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3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comment of the Council	Recommendation
A machine worth Rs. 490,000 purchased under provincial special development grants for cutting plastic waste at the Helagampura solid waste collection center had been remained idle for 04 years in the council's office storage room without a three-phase electrical connection.	It has been requested to provide three-phase electricity supply, but that Helagampura road is a homeless road and electricity supply has been taken only to the compost yard.	The power supply should be obtained and actions should be made to use the machine.

3.4 Assets Management

Audit Observations	Comments of the Council	Recommendations
(a) The value of the land where the buildings belonging to the local council are located, the value of 27 cemeteries and 10 playgrounds had not been identified and accounted.	That the value cannot be recognized as no valuation has been done.	Values should be recognized and accounted.
(b) The value of 05 items of cars and carts owned by the council had not been recognized and accounted.	That the council has no any records about the value.	Values should be recognized and accounted.
(c) 10 unusable vehicles in the possession of the council had been remained idle for a period of 04 to 20 years.	That the matters related to this will be observed and dealt with appropriately.	Necessary actions should be taken to auction unusable vehicles.

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| (d) | The council had not been taken action to transfer the ownership of the 09 vehicles used by the council, to the name of the council. | - Do - | Actions should be made to take over the ownership of the vehicle. |
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3.5 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
It was observed that there were 16 vacancies in the council by the end of the year under review and problems had been arisen in running the office due to the non-filling up of those vacancies.	It has been notified to the Local Government Department monthly. Certain vacancies are filled by recruitment of Multipurpose Development Assistant and New Development Officer.	Necessary actions should be taken to fill up the vacancies.