

## **Dimbulagala Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Dimbulaga 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 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 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 Dimbulagala 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**

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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**

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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 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)

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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

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

- (a) As the Financial Statements have been submitted in accordance with the new Accounting System as per Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31 December 2019, it cannot be compared with the previous year in terms of Sub-section 6 (i) d (iii) of the National Audit Act No. 19 of 2018.
- (b) Recommendations made by me during the last year as per the requirement mentioned in Section 06 (i) d (iv) of the Audit Act No. 19 of 2018 are included in the financial statements submitted.

## 1.6 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>
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(a) Due to non-accounting of court fine income receivables of Rs. 49,000 from the Mahiyanganaya court for the year under review, the fine was understated from that value.	I will take action to estimate and account for the coming year.	Revenue should be properly accounted for.
(b) The value of the fish market at Aralaganwila Sathi Pola worth Rs.1,289,135 belonging to the Sabha has not been identified as an asset and has not been taken into account and therefore the assets of the Sabha were understated by that value.	Necessary arrangements were made to record in the asset register.	Should be properly accounted for as an asset.
(c) Although the annual rental income for Aralaganwila fish stalls 01 and 02 is Rs. 127,308, due to accounting as Rs.15,000, the revenue for the year under review and the rental income receivable had been understated by Rs.112,308.	An error occurred when documenting, and steps were taken to correct it.	Should be properly accounted for as an asset
(d) Regarding the Ellawewa weekly fair, even though the arrears of the weekly fair at the end of the year under review was Rs. 145,000, but it was stated in the financial statements as	Necessary steps were taken to rectify the situation.	Revenue should be properly accounted for

Rs. 390,000 and therefore Weekly Fair Revenue and Weekly Fair Revenue Receivable for the year under review had overstated by Rs. 245,000.

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| (e) | Fixed assets worth Rs. 103,940 purchased in the year 2019 were identified as recurrent expenditure of that year and the fixed asset value was less accounted for at that value. | Necessary steps were taken to rectify the situation. | Should be properly accounted for as an asset |
| (f) | The value of fixed assets was less accounted for because 10 fixed assets items worth Rs.469,132 purchased during the year under review had accounted as recurring expenses.     | Necessary steps were taken to rectify the situation. | Should be properly accounted for as an asset |

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
(a) There was a difference of Rs.42,499,223 between the value according to the financial statements and the value according to the schedules for 09 accounting subjects.	Necessary steps are being taken to rectify the situation.	The correct values should be identified and accounted for.

## 2. Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2020 amounted to Rs.20,167,989 and as compared with the excess of recurrent expenditure over revenue amounted to Rs.903,111 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Performance of Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) A sum of Rs.178,225 had been collected as at 31 December 2020 from 86 institutions that should payable for advertising billboards for the year under review, and further arrears revenue of Rs.71,745 is remained due.	I will inform the Revenue Administrator and action will be taken on their recommendations.	Revenue should be collected from all institutes that charge advertising fees.