

Deraniyagala Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Deraniyagala Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Performance 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. 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 Deraniyagala Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 Principles, 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 includes 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 Act.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the Act.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) The values of 04 lands owned by the Sabha had not been identified and accounted.	Informed that this matter will be investigated in the future.	Property values should be identified and accounted.
(b) Provisions amounting to Rs.1,270,000 had been made for creditors during the year under review for 19 industries not contracted with. As a result, capital expenditure and creditors had been overstated by that amount.	Informed that only the contracted constructions will be shown as creditors in the future.	Provisions for creditors should be made only for contracted constructions.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.33,268,006 since the value as per the financial statements pertaining to 05 account subjects was amounted to Rs.214,322,567 and Rs.181,054,561 as per the schedules.	Informed that action will be taken to investigate the difference in the future.	Balances stated in the financial statements should be compared with the relevant supporting documents.

1.7 Non Compliances

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

The instances of non-compliance with the provisions of the laws, rules, regulations and management decisions were given below.

References to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulation 571(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Action had not been taken in accordance with the referred regulation with regard to 03 lapsed deposits amounting to Rs. 407,095 relevant to the period from the year 2010 to 2018.	Informed that action will be taken regarding the lapsed deposits in future.	Action should be taken to follow financial regulations.
(b) Section 7.4 (iv) of the Circular No. 01/2010 of the Commissioner of Local Government	Sitting allowances amounting to Rs.110,000 had been paid on 07 occasions during the year under review to 05 members who did not attend the Sabha due to non-medical reasons.	Informed that action will be taken in accordance with Circular No. 01/2010 of the Commissioner of Local Government regarding the allowance of members who do not attend to general meeting in future.	Payments made contrary to the Circular should be recovered.

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 2020 amounted to Rs.7,222,952 as compared with the excess of revenue over recurrent expenditure amounted to Rs.4,683,358 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) The outstanding rates balance was amounted to Rs.271,326. Action had not been taken to recover these balances.	Informed that the ban on property could not be carried out due to the Corona pandemic.	Action should be taken in accordance with the Act and the rates in arrears should be recovered.
(ii) The outstanding acreage tax balance was amounted to Rs.420,517 at the end of the year under review. Action had not been taken to recover these balances.	Informed that there was a difficulty in collecting due to the unavailability of information of the landowners and also collection was low due to the inability of searching landowners and conducting mobile services due to the Corona pandemic. The remaining acreage tax arrears will be collected using mobile services.	Action should be taken to recover the dues.
(b) Court fines and Stamp duty		
Stamp duty receivable balances from the Chief Secretary and other authorized officers of the Provincial Council was Rs.7,785,507 as at 31 December 2020.	Informed that action will be taken to recover the stamp duty due in the future.	Action should be taken to recover the revenue due to the Sabha.

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Even though the Sabha has used Lihiniyagala and Kahabate water sources to distribute water within the Deraniyagala town and Pradeshiya Sabha territory, it was observed that the water in those two water sources is not treated and the water obtained from the Kahabate water source is distributed through a water tank and the water obtained from the Lihiniyagala water source is distributed directly through a stream to the consumers. Further, it was observed that though chlorine is added to the distributed water, it is not done in a standardized manner and records are not maintained regarding that. Although the water samples were tested and confirmed to be unsuitable for human consumption, it was not been able to apply formal solutions. In addition, 757 out of 1693 water meters installed had been inactivated due to mud and debris in the water.	Informed that the National Water Supply and Drainage Board in collaboration with the Deraniyagala Pradeshiya Sabha has commenced the process of constructing a water treatment plant in the Lihiniyagala area to make the distributed water suitable for consumption.	Arrangements should be made to deliver purified water to the customer to the required standard.
(b) Even though the provisions of the Second Clause under the detailed process of the Land Acquisition Act (Chapter 460) for the construction of a crematorium in the existing cemetery at Udapola Estate have been received on 28 October 2019, instead of the	Informed that the activities of acquiring this land have been carried out up to the directive of the Section 04 of the land acquisition process and accordingly, the acquisition of this land is in	Prior to construction, the land should be acquired in accordance with the Land Acquisition Act.

normal process, a sum of Rs.22,525,925 had been spent from the year 2019 up to February 2021 for construction of the crematorium through the interim directive 38 (a) without taking possession of the land thereafter. Further, action had been taken only up to the directive under Section 4 of the Land Acquisition Process even by the date of the audit.

3.2 Idle or underutilized Property, Plant and Equipment

Audit observation	Comments of the Council	Recommendation
Action had not been taken to repair backhoe loader valued at Rs.16,695,000 received on 30 October 2018 and owned by the Sabha which had been idle from the year 2017 to August 2020.	Informed that quotations have been called for the backhoe loader for repairing.	Non-performing assets should be repaired and utilized effectively.

3.3 Delays in Projects, Activities or Capital work

Audit observation	Comments of the Council	Recommendation
(a) The contract for the construction of trade stalls at the Deraniyagala bus stand in line with the Deyata Kirula National Program- 2014 had been awarded to the State Engineering Corporation on 26 December 2013 at an estimated cost of Rs.44,801,291. The construction work had not been commenced even by the end of the year under review and as a result, key money amounting to Rs.24,299,000 obtained from 29 lessees by calling tenders on 12 August 2014 for the lease of 31 trade stalls, could not be used for the relevant work.	Even though the construction work of the bus stand has been handed over to the State Engineering Corporation by the Kegalle District Secretariat, it has been informed that the construction work of the bus stand could not be carried out at this moment as those activities were not done properly.	A decision should be made on the amount of key money received from the tenants.

- (b) Even though an agreement had been entered with the Multipurpose Co-operative Society in Panawala-Deraniyagala to construct a car park at an estimated cost of Rs.1,369,224 on 13 August 2019, the relevant society had not commenced works and based on the decision to carry out construction work under direct labour method, only the concrete columns had been constructed by incurring a cost of Rs.231,952 during the year under review. As a result, the vehicles belonging to the Sabha had been exposed to rain and sunlight even at the time of the audit and attention had not been paid to expedite the construction work for their safety.
- The project was halted due to the low level of revenue of the Pradeshiya Sabha due to the Corona pandemic. However, it has been informed that the project work would be expedited and completed by 2021.
- Action should be taken to expedite the completion of the construction work.