

Dehiowita Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Dehiowita 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 Dehiowita 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) Even though land and building was assessed in the year 2019 and while another committee has been appointed for the re-assessment without approving said assessment report. Increased value of Rs. 168,119,089 based on the above assessment has been capitalized.	Assessed value of the land in the year 2019 has been mistakenly capitalized and informed that Action will be taken to get the approval for the verification report in future.	Assets should be capitalized by following the accurate procedure.
(b) The cost 11 machineries received as donation have not been identified and capitalized.	Value has been identified by a pricing committee and action will be taken to bring to account in future.	The value of donation should be capitalized.
(c) Due to the capitalization of the trade discount of Rs. 111,314 for the furniture and fittings bought in the year under review. Furniture and fittings and revenue contribution to capital account have been over stated by Same amount.	Acknowledged that the adjustment made to the furniture and fitting and revenue contribution to capital account is a correct entry. Since discount received for the furniture should be capitalized.	Paid amount to purchase the assets should be accounted as cost of the assets and no accounting for trade discount.
(d) One per-cent receivable from the land allotment of Rs. 145,290 has not been brought to account as debtors.	Provision for debtors for this has been missed and Action will be taken to bring account by identifying that amount.	Action should be taken to rectify the accounts.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
A difference was Rs.92,841 with regard to an account subject due to the value of Rs.298,857 as per financial statement and Rs.206,016 as per related reports.	Action will be taken to rectify the accounts by identifying the differences in future.	Accounts should be compared and made correction

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.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Regulations No 185 (finance and administrative) of Pradesiya Saba 1988.	Approval of Sabha has not been obtained for the value of Rs.27,479,853 remained as at 31 December year under review which was done on the approval of the Chairman.	Informed that the Action will be taken to obtain approval in future.	When investment is made. Action should be done in terms of regulations.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka, Financial Regulation 571(3).	Action has not been done in terms of referred regulation regarding the lapsed security deposit of Rs. 1,262,535 for the period from year 2015 to year 2018.	Informed that the until entering in to agreement with regard to Dehiowita new market complex, security deposit on that agreement had been with hold.	Action should be done in terms of the financial regulation soon after entering in to agreements.
(c) Tax Table 07 of Pay As You Earn Tax under the Employment Income of the Inland Revenue Act, No.24 of 2017.	Even though Pay As You Earn Tax is charged Where Income from second employment is less than or equal to Rs. 50,000 per month, at rate 10 percent and balance amount exceed Rs. 50,000 per month, at rate 20 percent are charged. Tax of Rs. 84,104 against the paid amount of Rs. 841,044 relating	Informed that future action will be taken after getting direction from the Inland Revenue Department in this regard.	Action should be taken in terms of the Inland Revenue Act.

to the two members of Sabha had not been claimed up to the November 2019.

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 1,340,388 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 2,865,210 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
(a) Rates and Taxes	. Even though red notices had been issued to cease the properties of the rates due in some of selected divisions. Informed that it was unable to proceed due to the pandemic situation and Collecting income was done by way of letters and gone door to door by officers.	Action should be taken to recover the due income in terms of the Act.
(b) Rent	Due rent was recovered from key money by 12 installments and shop owners are issued letters to be paid the due and informed that it is being recovered.	Action should be taken to recover the due rent.

(c) Court fines and stamp fees

Although recoverable balance which exceeds two years in the court fine balance of Rs. 2,164,373 receivable from the Chief Secretary of the Provincial Council and other authorities have not been recovered. Stated that balance was only amended which exceeded a period of two years. Action should be taken to recover due amount.

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 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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Receivable contract debtors balance as at the date 31 December in the year under review was Rs. 81,529,088 and payable balance to contract creditors was Rs. 91,786,151	Informed that action will be taken to pay after receiving the money for relevant development project and Letters has been sent to the Dehiowita Divisional Secretary and District secretary office.	Receivable and payable balance should be settled.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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Even though a sum of Rs 929,966 has been paid for the stage of completed worked in the Construction of Hela bojun hall as at the date 28 August 2020, due to the work related to the toilet construction has not been completed. Therefore unable to open until date of audit 5 th October 2020. As well it was observed that a door has been fixed in allocated space for a store room which was not in estimated and equipment of the site were in unsecured due to the non-available of a secured fence.	Only 31 items of estimated has been completed the works and paid for it. Even though Construction of toilet system has been included in the estimate of first contractor and an estimate has been approved again on 08 September 2020 due to non-fulfillment of it and even though that place has been ready to construct two toilets due to the non-available of store, it was taken for store and decision has been taken to construct toilet in a separate place and according to the second estimates, informed that action has been taken to fix the door to protect the equipment.	Action should be taken to utilize the "Hela bojun hall" effectively and assured the security of the assets.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
<p>When supply the service of the JCB machine belongs to Sabha had been provided with and without charge and supply the service in free of charge has been done under the approval of the chairman. Free of charge supplied machine hours were 1026.70 from the year 2019 to August 2020 and as a result, the gross lost revenue to Sabha was Rs.1,613,550. Even though earned income by supply on cash was Rs. 808,950, the cost incurred for the fuel and repair of the machine were Rs.1362,989 and Rs.1,444,103 respectively.</p>	<p>Free of charge services have not been taken in to income due to the non-provision in the year 2019 and informed that action has been taken in to income for incurred expenses of the public service done from January 2020 to June.</p>	<p>Action should be taken to earn income by utilization the assets of Sabha.</p>

3.4 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
<p>Even though approved carder was 3 in the posts of Revenue examiner and Driver. The actual number was 1 and 2 respectively. Two work field labors who unable to bear responsibility of that post for the vacant duty of collection income. As well action has not been taken to fulfill one vacancy in territory level, 13 vacancies in 5 secondary level post and 9 vacancies in 5 primary level posts.</p>	<p>Due to unavailability of approved carder in the post of revenue examiner and drivers, written request has been made to the Chief Sectary for fulfillment the vacancies and duty of the post of drivers have been assigned to work field labors those who have licensed and informed that written request has been made to the Chief Sectary to fulfill the all vacancies in the posts of primary, secondary and territory.</p>	<p>Action should be taken to fulfill the vacancies of the Sabha.</p>