

Dambulla Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Dambulla Pradeshiya sabha for the year ended 31st December 2020 comprising the balance sheet as at 31st December 2020, Income and Expenditure account, 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 Sub-Section 172(1) of the Pradeshiya Sabha Act No.15 of 1987 and Provisions of the National Audit Act No.19 of 2018. 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 Dambulla Pradeshiya Sabha as at 31st 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 skepticism 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 the 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 the Pradeshiya Sabha 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

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

- (a) The financial statements of Pradeshiya sabha are consistent with the previous year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No.19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No.19 of 2018 .

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit observation	Comments of the Sabha	Recommendation
(a) The value of Machinery and plants & furniture and fittings amounting to Rs.203,988 which were purchased from recurrent provisions and accounted for as fixed assets had not been accounted for as capital expenditure.	The shortcoming that has been pointed out is accepted and action will be taken to accurately identify and account for capital expenditure.	Assets should be accounted for accurately.
(b) The fixed deposit interest income for the year under review had been understated by Rs.124,657.	The shortcoming that has been pointed out in Audit is accepted and rectified in the preparation of next year's accounts	Investment income should be accurately accounted for.

1.6.2 Unreconciled Control Accounts or Records

Audit observation	Comments of the Sabha	Recommendation
There was a difference of Rs.18,052,983 As the value of 02 accounting subject being Rs.27,073,950 as per the financial statement and Rs.9,020,967 as per the source document/reports.	Actions are being taken to settle.	Difference should be identified and relevant adjustments to be made.

1.6.3 Suspense accounts

Audit observation

The debit balance of Rs.12,587,598 in the suspense store account at the end of last year had been carried forward without settling even in the year under review.

Comments of the Sabha

This balance is being brought forward as goods issues in warehouses have not been accounted for a long time and a committee will be appointed and according to the report, future actions will be taken

Recommendation

Suspense balance should be identified and financial statements should be corrected.

1.6.4 Lack of written evidence for the Audit

Audit observation

The required source documents for 04 account subjects amounting to Rs.38,066,493 had not been submitted for audit.

Comments of the Sabha

Action will be taken to correct the account for the next year.

Recommendation

Assets should be maintained with the evidence.

1.7 Non-compliance

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

The following are the instances of non-compliance with the provisions of laws, rules, Regulations, management decisions.

Reference to laws, rules and regulations	Non-compliance	Comments of the Sabha	Recommendation
Financial Regulations 571 (3) of the Democratic Socialist Republic of Sri Lanka	Financial regulations had not been complied with 23 industries, tenders and other deposit balances amounting to Rs.1,500,527. that are more than 02 years	Actions are being taken to credit the deposits more than two years to the revenue.	Financial regulations should be complied with.

2. Financial Review

2.1 Financial results

According to the financial statement presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31st December 2020 amounted to Rs.13,675,398, in contrast the amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.34,171,896. It was observed that the reasons for this are 88 percent decrease in capital

expenditure and 25 percent decrease in recurrent expenditure, and 06 percent increase in payment of salaries and allowances.

3. Operational Review

Following matters were revealed with regard to duties to be fulfilled by sabha as per the Section 03 of the Pradeshiya sabha Act, in relating to regulation and control of all the matters relating to Public health, Public utility services and public highways, comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

Audit observation	Comments of the Sabha	Recommendation
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(a) A person has built a sales stall and a small stall for residence in the new car park at Sigiriya without the approval of the Pradeshiya Sabha. Although, the Sabha had informed the relevant persons about the construction since 2016, no action had been taken to remove those unauthorized constructions.	That the unauthorized construction pointed out by the audit will be removed.	Action should be taken to remove unauthorized constructions.
(b) No action was taken during the year under review to settle the 06 account receivable balances (Other income in Arrears Rs.1,153,546, dishonored cheques Rs.13,050, Rent control Rs.1,000, Urban council- Dambulla Rs.2,806,009 , Current account - 31313 , Officers loan 577) the total of Rs.4,005,495 of which had been carried forward without any changes in the financial statements for over 7 years.	No comments.	Action should be taken to recover the receivable balances.

3.2 Assets management

Audit observation	Comments of the Sabha	Recommendation
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Necessary action should be taken to take over the ownership of the tractors, trailers and cabs used by the Sabha and the lands consists of 112 plots of land belonging to the Pradeshiya Sabha including cemeteries, public places, public libraries and playgrounds. Accordingly, it was observed that the owners of the vehicles	Relevant institutions have been informed to take action to transfer and the necessary steps are being taken to take over the lands.	Action should be taken to confirm the ownership of the assets.

have been informed to take over and necessary arrangements are being made with the Divisional Secretary to take over the lands.

3.3 Defects in Contract Administration

Audit observation	Comments of the Sabha	Recommendation
(a) Although 30 contracts ranging from Rs.135,000 to Rs.1,000,000 have been awarded to the Ekamuthu Farmers' Association from time to time, At the time of signing the agreement, the financial capacity of the society ranged from Rs.10,792 to Rs.745,512. Financial viability had not been tested in awarding contracts in relating to 06 industries.	That these contracts were awarded because the societies that have been involved in the development work for a long time and have done the work properly and are personally aware of it.	The provisions of the Government Procurement Guidelines should be complied with.
(b) According to Procurement Guidelines 3.9.1, only 03 industries can be assigned to an approved society at a time subject to a maximum of Rs.2 million. However, out of the 44 contracts awarded by the Council for the year 2020 under the direct contract system, 22 contracts worth Rs.11,614,381 were awarded to 03 societies.	Experienced organizations are to be selected from the same divisions and the societies pointed out in the audit will have to be awarded more contracts.	Provisions of the guideline 3.9.1 of government procurement guideline should be followed.