

Homagama Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Homagama Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of Assets and Liabilities as at 31 December 2021 , Comprehensive Income Statement, 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the 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 Homagam Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities

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 Sri Lanka Public Sector Accounting Standards for Local Government 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)**

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 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

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

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) The following recommendations made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting deficiencies

| Audit Observation | Comment of the Council | Recommendation |
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| ----- | ----- | ----- |
| (a) Property Plant and Equipment valued Rs.670,548 purchased in the year 2021 had been included in to the inventory and shown under current assets statement. | The action will be taken to issue these assets in the year 2022 and remove them from the warehouse stock. | Property, plant and equipment should be properly accounted under fixed assets. |
| (b) Increase in prepayments and advances of Rs.3,331,160, increase in receivables from employees of Rs.1,844,233 and increase in receivables from exchange transactions of Rs.30,582,510 had not been reconciled under the decrease/increase in receivables to be adjusted under working capital changes. | The revised cash flow statement is submitted herewith. | The action should be taken to account Properly. |
| (c) The creditor balance as at 31 December 2021 had been under stated by Rs.4,037,061 due to the fact that certain creditor balances included in the creditor's register had not been copied to the creditor's account. | The action will be taken to correct by the year 2022 accounts. | The action should be taken to account the creditor balances. Accurately. |

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| (d) | The building donation had been under stated by Rs.8,000,000 due to the building donation value of Rs.78,014,305 from the Pura Naguma project in the year was recorded as Rs.70,014,305 in the year under review. | It will be corrected it in the year 2022 since this is an error in the number. | Capital grants should be correctly identified and accounted. |
| (e) | The composition of Debit balances of Rs.14,327,013 and credit balances of Rs.96,686,140 in the Suspense balance account were also not identified during the year under review. Also, the balance of Rs.82,365,928, which is the difference between the balances receivable and the balances payable, was debited to the unidentified balance account and credited to the accumulated fund without formal approval. | When the transition took place as of 01.01.2020, the difference between the balances of the ledger accounts and the schedules has been transferred to the unrecognized balance account. Among them, the errors detected in the year 2021 have been corrected using journal entries and the balances of the accounts that are still being checked have been corrected. Consists of unidentified account balance. | Unrecognized balances should be identified and reconciled in the accounts. |
| (f) | Due to the fact that the tipper purchased in the year 2020 was also accounted as a recovered asset, the value of Rs.4,268,800, which was added over, was written off from the motor vehicle account as Rs.4,640,000 by Journal entry No. 3, therefore the value of the motor vehicle account had been understated by Rs.371,200. | The action will be taken to correct by using journal entries in the final account of the year 2022. | The action should be taken to account using the correct values of the assets. |

1.6.2 Unreconciled control account or report

Audit Observation

A difference of Rs.7,260,557 was observed between the sum of the balances shown in the financial statements and the sum of the balances according to the books/schedules in relation to 03 accounting subjects. Also, a un reconciliation of Rs.1,675,934 was

Comment of the Council

The action will be taken to correct from the account of the year 2022.

Recommendation

Differences should be identified and corrected.

observed between the calculations given for the general deposit balance due to the head office in the statement of assets and liabilities presented for the year under review and the deposit balance in the statement of assets and liabilities.

1.7 Non-compliances

1.7.1 Non-compliance with the rules, regulations and management decisions

| | Reference to laws rules and regulations | Non-compliance | Comment of the Council | Recommendation |
|-----|---|---|--|---|
| (a) | The Section 2.2.2 of the Western Province Local Government Circular No. 1/2016 dated 29 February 2016 | Rs. 494,500 had been paid on 01 July 2021 to repair a cab without getting technical or mechanical engineering advice as per the circular. | There is no Technical Officer (Vehicle) or Mechanical Engineer to get recommendations regarding vehicle repairs in the council and if an external officer is hire for assistance, it will cost extra money and take more time. As it is difficult to carry out these activities in practice, the vehicle should be repaired and provided as soon as service is required. | The action should be taken in accordance with the Instructions in the circular. |
| (b) | The Section 128 of the Local Councils Act No. 15 of 1987 | 17 lands and 31 cemeteries including buildings and playgrounds, herb gardens etc. used by the council had not been acquired by the council. | After confirming the right of the land, the land will be acquired and the land surveyor has been directed to mark and settle the boundaries according to the plan of the land. | Actions should be taken immediately to confirm the ownership of the lands. |

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| (c) | The Section 296 of the Chapter V of the Special Gazette No. 2155/8 of the Democratic Socialist Republic of Sri Lanka dated 24 December 2019 | According to the gazette, a survey of properties subject to industry tax and trade business tax should be conducted in every local council territory, however the survey had not started even on 14 March 2022. | No comments had been received | Property survey should be done as per gazette notification. |
| (d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | | |
| ----- | | | | |
| (i) | F.R. 177(1) | Even though the whole amount received by the council, whether or not as part of the council's income, should be paid to the institution daily or as early as possible or promptly to the proper receiving officer or the accounting officer in such manner as may be so directed, cases were observed where the payment was delayed by more than a week. | It was decided to revise the terms of the agreement so as the money collected would be recovered immediately from the council. | The Action should be made to get the money collected as per the Financial Regulations to the council as soon as possible. |
| (ii) | F.R. 880 | According to the 612th Authority of Government Officials Deposit Ordinance, which is the authority that the officers in charge of government money, income and belongings should be deposited however five officers who were supposed to be bailed in the House did not put deposits. | Necessary arrangements are being taken to collect deposit money from five officers who have to deposit. | Arrangements should be made to get deposit money. |

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| (e) | The Public Finance Circular No. 03/2015 dated 14 July 2015 | Although the interim advance should be received on the closest day to the work and the advance should be settled within 10 days after the completion of the work, 30 cases of advance settlement were observed late for a period of 4 to 60 days in the year under review. | Informed that action will be taken to avoid recurrence of delay in advance settlement. | Arrangements should be made to settle the arrears without delay as per the Circular. |
| (f) | The Section 2.4 of Public Finance Circular No. 01/2021 dated 29 September 2021 | At the time of awarding a contract to a community-based organization, the relevant community-based organization should not have engaged in more than three contracts, however contrary to the Circular, more than 03 contracts were awarded to 05 community-based organizations. | Since other societies related to the area were not registered and the projects should have been completed within the year itself, the amount that could be given to one society did not exceed and because there was not enough time, it was implemented by the respective societies. | The action should be taken in accordance with the circular. |

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 2021 amounted to Rs. 215,580,460 as compared with excess of revenue over recurrent expenditure amounted to Rs. 216,747,584 in the preceding year. It was observed that the financial result had deteriorated by Rs.1,167,124 compared to the previous year.

2.2 Performance of Revenue Collection

Following observations are made the regarding the revenue collection performance of the council.

| Audit Observation ----- | Comment of the Council ----- | Recommendation ----- |
|----------------------------|---|---|
| (a) Court Fines ----- | The court fine balance that should have been received | All fines related to the years 2017 and 2018 have been taken to recover the due |

from the Homagama and Kasbewa Magistrates' Courts as at 31 December 2021 was Rs.92,239,111.

received and schedules related to the year 2019 have been prepared and given to the Provincial Revenue Department. The preparation of the court fine sub-documents of the Magistrate Courts in relation to the years 2020 and 2021 is currently being carried out.

court fines income.

(b) Ground Rent

The land owned by the council with a size of 10.31 acre 1 rood 2 perches leased for the Megoda Economic Centre for a long period of 33 years from 07 February 2003. However the arrears of ground rent and fines due to the council from the year 2014 to the end of 2021 were Rs. 198,450,000 still to be recovered as at 31 December 2021. It was also observed that due to the fact that the lease agreement did not include the measures to be taken if the lessee does not pay the rent as per the agreement, it has not been possible to recover the arrears of rent or cancel the lease agreement.

Inform you that due to the fact that the measures to be taken in case of non-payment of rent of Megoda Economic Center are not included in the lease agreement, I will seek advice from the council's lawyer in this regard.

Necessary action should be taken promptly and arrangements should be made to recover the arrears of income.

(c) Stamp Duty

The recoverable stamp duty as at 31 December 2021 was Rs.378,443,654.

The land registry office of Colombo, Delkanda, and the land registry office of Homagama will prepare the stamp duty schedule from the year 2019 and the year 2020 for the Homagama local council. Inform that the relevant documents will be updated as soon as the information is received.

The Prompt action should be taken to recover stamp duty.

3. Operational review

3.1 Management Inefficiencies

| Audit Observation | Comment of the Council | Recommendation |
|---|--|---|
| (a) Rs. 9,863,471 payable by the local council for the damage caused to the road while obtaining drinking water had been released in the year under review for the year 2021. At the request of the applicants, the money was released by the local council subject to the rebuilding of the road by the applicants under the supervision of the technical officers, however the technical officers did not follow up on it and did not identify which of the released roads were currently prepared. | Not commented. | A follow-up action should be done to identify which of the freed roads are currently repaired. |
| (i) Solid Waste Management | | |
| An annual plan for Waste Management had not been prepared as per Section 93 of the Local Council Act. | Steps had been taken to prepare a five-year plan in the year 2022 in collaboration with the Waste Management Authority and JICA. | An annual plan should be prepared for waste management. |
| (ii) As at the last day of March 2022, the council had not entered into a method of effectively utilizing the decomposing waste without transporting it to another yard for composting or selling fertilizer. | A provision has been requested for the construction of a compost yard. | Production of organic fertilizers and revenue generation channels should be introduced as soon as possible. |
| (iii) There was no attention paid to the ugliness, stench and pollution of the city by garbage collection. | A compost yard and resource center are proposed for the site to reduce waste received to this center. | Attention should be paid to the place of garbage collection. |

3.2 Assets Management

| Audit Observation ----- | Comment of the Council ----- | Recommendation ----- |
|--|--|--|
| <p>(a) Kiriwaththuduwa Kahatagahavattalanda, Pubudu Uyana public lands ----- A public facility land of 1 rood and 7.52 perches of the Deed No. 497 dated 23 January 1996, under Lot No. 106 had been given to the council by the Finance Company. It was revealed that a house with a concrete roof and a temporary shop was constructed in that area of about 14.66 perches by a resident. It was also observed that water and electricity had been obtained for those houses and the assessment had also been applied for. However this land was not possessed by the council till the end of the year under review.</p> | <p>Since there is an unauthorized construction on the public land of Kirivattuduwa Kahatagaha Wattalanda, Pubudu Uyana, the documents related to take possession of it have been forwarded to the Assistant Commissioner of Local Government and forwarded to the Legal Officer for further proceedings. The Legal Officer has directed the Council's Surveyor to correct the deficiencies shown in the survey plan.</p> | <p>The Arrangements should be made to confirm the ownership of the land immediately.</p> |
| <p>(b) Public land in Jaltara Ranala Laksiri Park ----- Even though the public facility land adjacent to the playground of 1 acre 19.50 perches located in the Jaltara Ranala Luxiri Park has been acquired by a private party and cultivation work has been done. Even on 31 December 2021, the council had not taken steps to reserve these lands.</p> | <p>After the on-site inspection, the technical officer has directed the surveyor to mark and settle the boundaries of the land according to the relevant floor plan. After marking the correct boundaries, protective fences will be set up.</p> | <p>Arrangements should be taken to transfer the land to the council immediately.</p> |

3.3 Human resource management

Audit Observation

Staff Loan

Actions had not been taken to recover property, distress, special bicycles and festival loans amounting to Rs.1,600,949 due from 47 persons who died, retired, left service and were transferred.

Comment of the Council

Not commented

Recommendation

Action should be taken to recover employee loan amount.

4 Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation

Although there are 17 goals to be achieved by the council according to the United Nations' Sustainable Development Agenda 2030, the Homagama Pradesheeya Sabha has prepared plans for 9 goals. Under those objectives, although indicators had been identified regarding the projects and activities to be implemented in the year 2021, 06 planned tasks/activities had not been completed.

Comment of the Council

When planning for the year 2021, even though the plans were made on the assumption that the corona epidemic situation would disappear in that year, due to the existence of the epidemic situation in that year too, more expenses had to be incurred for the unplanned activities.

Recommendation

Various activities should be fulfilled.