

**1. Financial Statements**

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**1.1. Qualified Opinion**

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The audit of the financial statements of the Dompe 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, statement of changes in net 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 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 financial statements give a true and fair view of the financial position of the Dompe Pradeshiya Sabha as at 31 December 2021, 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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I expressed qualified opinion 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 Requirements

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National Audit Act, No. 19 of 2018 include 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 National Audit Act, No. 19 of 2018.
- (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 National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations on the preparation of Financial Statements

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### 1.6.1. Accounting Deficiencies

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Audit Observation	Comments of the Council	Recommendation
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(a) Fixed assets amounting to Rs.850,554, received as donations in the year 2020, were accounted as donations, instead of accounting as capital grants. Further, of amortised value of Rs.95,410 relating to that amount had not been recognised, in the current year, as government transfers for non-recurring expenditure and as a result, Surplus for the year had been understated and the capital grants had been overstated by the same amount.	Actions will be taken to correct.	
(b) Capital Expenditure Grants of Rs.40,940,885 received during the year 2021 were not disclosed in the Comprehensive Income Statement	Will be corrected in the Financial Statements for 2022.12.31.	Should be accounted accurately.
(c) 09 nos. Tractors with a value of Rs.6,187,290 which should have been accounted under Motor vehicles, had been accounted under Machines. Further, although the depreciation value of 9 nos. tractors should have been Rs.247,492 under the motor vehicle depreciation percentage, it had been disclosed as Rs.309,365 under the machinery depreciation percentage, which resulted the year's Surplus and Property, Plant and Equipment balance being understated by Rs.61,873 in the Financial Statements.		

- (d) A stock value of Rs.19,556,553 had been debited to the relevant Expense account and credited to the Creditor accounts in the year under review. As a result of accounting the purchase value of this Stock as Rs.27,897,146, when debiting to General stock account and crediting to the Supply Expense account, the Accumulated Fund balance and the General stock balance had been overstated by Rs.8,340,593 in the Financial Statements.
- (e) Due to the reason that, a sum of Rs.443,752, paid to the Local Credit Development Fund during the year under review was debited to the Expenditure account, the Surplus for the year had been understated by that amount. Also, it was observed that the Accumulated fund balance had been understated by Rs.2,315,856 due to the fact that these loan instalments had been accounted as an annual expense in the previous years.
- (f) As per Audit calculations, the fixed deposit interest for the year under review was Rs.9,155,612 and as per financial statements that balance had been Rs.14,353,032 and therefore, the Surplus and the Interest Receivable for the year, had been overstated by Rs.5,197,420.
- (g) The increased value of Rs.99,962,724 in the year 2019 of account balances of 15 Revenue types than their correct balances had been credited to Reserves & Provisions instead of crediting to individual outstanding Revenue accounts.
- (h) The Loan Instalment of Rs. 443,752, payable on Local Debts and to Development Fund in the next year, had not been shown separately as Current Liabilities, as per the Public Sector Accounting Standard 15.8.
- Will be corrected in the Financial Statements for 2022.12.31.
- Should be accounted accurately.
- Will be corrected in the Financial Statements for 2022.12.31. Should be accounted accurately.

### 1.6.2. Receivable & Payable Accounts

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Audit Observation	Comments of the Council	Recommendation
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<p>(a) As per the Age Analysis of Creditors, a sum of Rs.731,002 unpaid for a period of 3-5 years and a sum of Rs.4,873,735 unpaid for a period of 1-3 years, had not been settled at least by 30 June 2022.</p>	<p>Monies between 1-3 years will be taken back to the Income or be paid off in the future. Rs.731,002 between 3-5 years, will be settled in the future, once cash is received from the Divisional Secretary</p>	<p>Actions should be taken to inspect and settle Creditor balances and to correct accounting deficiencies</p>
<p>(b) Arrears Rental Income as at 31 December 2021 from letting the properties owned by the Sabha had been Rs.11,973,953. As per the Age Analysis, a sum of Rs.654,658 had been arrears for more than 01 year, a sum of Rs.7,021,565 had been arrears between 01 to 09 months and actions had not been taken to recover them even by 30 June 2022.</p>	<p>Letters had been sent to recover arrears amounts</p>	<p>Actions should be taken to recover arrears income.</p>

### 1.6.3. Unreconciled Control Accounts or Records

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Audit Observation	Comments of the Council	Recommendation
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<p>A difference of Rs.4,316,967 was observed between the balances of 03 accounting items as per Financial Statements and the aggregate balances as per Schedules</p>	<p>This will be corrected in the accounts for 31 December 2022.</p>	<p>Actions should be taken to identify and correct differences.</p>

## 1.7. Non- Compliances

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

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Reference to Laws, Rules Regulations	Non-compliance	Comments of the Council	Recommendation
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Financial Regulation of the Democratic Socialist Republic of Sri Lanka 371(2)	Advances amounting to Rs.82,656 since the year 2008 with parties unidentified and the Advances given in the year 2021. Amounting to Rs.880,389 had not been recovered even by the 30 June 2022.	Actions will be taken to recover in the future.	Unsettled Advances should be recovered as per the Financial regulations
571	Actions had not been taken as per Financial Regulations with regard to an aggregate sum of Rs.2,069,790 of expired Contract bonds, Tender Deposits, 10% Contract Deposits and Miscellaneous Deposits as at the closing date of the year under review.	Actions will be taken to recognize Income	In terms of Finance Regulations, actions should be taken to recognise as Income or to refund.

## 2. Financial Review

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### Financial Result

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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.49,034,331 as compared with the excess of revenue over recurrent expenditure amounted to Rs.187,187,134 in the preceding year.

### 3. Operational Review

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

#### 3.1. Management Inefficiencies

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<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
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Though, as per the 4 <sup>th</sup> Condition of the agreement made with the lessees, regarding the renting of shops of Public Market – Kirindiwela, owned by the Sabha, the rentals cannot be delayed for more than 03 months and if the rentals are so delayed, the shops should be sealed and taken over, such actions had not been taken for 04 shops of which the rentals had been outstanding since January 2021 to December amounting to to aaamounting to Rs.393,400.	Final Notices had been sent for unpaid shops and legal actions will be taken.	Actions should be taken to take over in terms of the condition of the Agreement

#### 3.2. Assets Management

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<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
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<b>(a) Failure to ensure Safety of Assets</b>		
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The Sabha had not taken any action to obtain the title deeds for the lands owned by it with an extent of 110.92 acres and a value of Rs.520,182,000.	Actions are currently being taken for the lands with no title deeds.	Title Deeds should be obtained

(b) **Idle and Underutilized Assets**

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02 Tractors and a Hand Tractor with a total value of Rs.1,694,562, which were taken out of services and a Gully Bowser and a Tractor with unspecified values, had been kept idled without being repaired and used or being properly valued and disposed of.

Actions will be taken to auction by the end of the year 2022.

Vehicles without values should be valued and accounted for. Actions should be taken to repair and use or value and properly dispose of.

**3.3. Environmental Observations**

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**Audit Observation**

**Comments of the Council**

**Recommendation**  
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According to the agreement signed by the Dompe Pradeshiya Sabha on 03 August 2010, with the Central Environmental Authority, a Sanitary Waste Retaining Project was built in the Maligawatta area of Kirindiwela, at a financial cost of nearly Rs.450 million, in a land of 12 acres, 1 rood, 16.84 perches, for the disposal of garbage generated in the area of the Dompe Pradeshiya Sabha. It is stated under the condition 1.5 of the agreement that, actions should be taken to formally hand over the project site and all construction work to Dompe Pradeshiya Sabha, after the completion of all construction work, the handing over had not been done even by 30 June 2022. even though the construction of this project was completed by the end of 2014.

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Officials in the Environment Authority, the Provincial Governor and the Provincial Council have been informed in writing and verbally and so far no positive solution has been received. The fact that this project is currently the only project in Sri Lanka and is used as a pilot project and a study centre, might be the reason for non-handing over.

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This should be formally handed over to Dompe Pradeshiya Sabha.