

Dimbulagala Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Dimbulagala Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of Assets and liability as at 31 December 2022, statement of comprehensive income, statement of changes in net assets/equity, statement of cash flow 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 Dimbulagala Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

1.2. Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report I express a qualified opinion in respect of financial statements.

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 Standard, 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, enable to preparing 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 National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes 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

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Expenses amounting to Rs.3,449,162 relating to the year under review had been omitted from the financial statements.	Actions will be taken to correct.	Accounts should be accurately submitted.
(b) A sum of Rs.77,227 payable for Employee Provident Fund and Employee Trust Fund in relation to the year under review had been omitted from the financial statements.	Actions will be taken to correct in preparation of Financial statements 2023 .	-do-
(c) Sand mining income amounting to Rs.689,000 for the months of November-December of the reviewed year had been omitted from the financial statements.	-do-	-do-
(d) Vehicle and machinery rental income receivable in respect of the year under review amounted to Rs.351,240 had been omitted from the financial statements.	-do-	-do-

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| (e) | Billboard revenue to be received relating to the year under review amounting to Rs.93,950 had been omitted from the financial statements. | -do- | -do- |
| (f) | The value of 06 lands and buildings belonging to the Pradeshiya Sabha valued at Rs.177,183,995 had been omitted from the financial statements. | -do- | -do- |
| (g) | The contract debtor balance amounting to Rs.49,575,442 and contract creditors balance amounting to Rs.54,042,467 had been omitted from the financial statements as at 31 December of the year under review. | -do- | -do- |
| (h) | Damages and losses remained at the end of the year as per damage and loss register amounting to Rs.2,752,972 had been omitted from the financial statements. | -do- | -do- |
| (i) | Provisions for audit fees in respect of the year under review had not been made available. | -do- | -do- |
| (j) | The cost of the solar panel system installed in the Pradeshiya Sabha office amounted to Rs.3,100,000 had been omitted from the financial statements. | -do- | -do- |
| (k) | Twelve assets valued at Rs.544,482 held in the warehouse at the end of the year under review had been omitted from the financial statements. | -do- | -do- |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.24,200,426 between the balances shown in the financial statements of 04 account balances as at December 31 of the year under review and the totals shown in their related documents/schedules.	Actions will be taken to correct.	Source documents should be reconciled and corrected.

1.6.3 Lack of Written Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
As a result of non- submission of updated source documents, schedules, balance confirmations and depreciation analysis in respect of 05 account balance valued at Rs.61,026,530 as at 31 December of the year under review, it could not be satisfactorily vouched.	Actions will be taken to update the documents.	Necessary details and updated documents should be submitted to audit.

1.7 Non-compliance

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Local Government Commissioner Circulars			
Paragraphs 1 and 2 of Circular NCP/LG/9/7/19 dated 18 July 1994	The monthly lease rent for the sales stalls shall be determined after considering the valuation of the Chief Valuer or a	Necessary arrangements are being made to carry out a formal assessment.	Actions should be taken to obtain assessment Reports.

Valuer belonging to the Local Government Service if there is one officer in the institution and although the assessment lease rent should be revised at least once in five years, considering the monthly rent for sales stalls of Pradeshiya Sabha in 2017, 2020 based on temporary assessment, charges had been made based on that.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the expenditure of the Sabha for the year ended 31 December 2022 was Rs.11,965,451 and the correspondence revenue that exceeded the expenditure of the preceding year was Rs.81,844,803.

2.2 Revenue Administration

2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

The details about the estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Income	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December	Estimated Revenue	billed Revenue	Collected Revenue	Total of arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	41,250,000	33,059,875	30,860,679	15,497,025	29,500,000	40,678,199	29,454,249	13,297,828
(ii) Rents	6,513,827	3,162,964	2,671,906	5,070,828	6,530,850	6,386,313	6,440,296	4,579,767
(iii) License Fees	16,539,750	2,569,865	2,052,100	2,829,500	12,672,060	2,125,186	1,844,880	2,311,735
(iv) Other Income	13,300,000	35,334,616	1,592,625	61,002,773	24,611,570	43,294,308	48,615,783	40,558,615
	77,603,577	74,127,320	37,177,310	84,400,126	73,314,480	92,484,006	86,355,208	60,747,945

2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Rents</p> <p>The arrears of rent income was Rs.1,933,840 and the arrear weekly fair levy was Rs.2,696,722 as at 31 December of the year under review.</p>	<p>Arrangements are being made to take legal actions.</p>	<p>Sufficient attention should be drawn to recover the arrears.</p>
<p>(b) License Fee</p> <p>Actions had not been taken to recover the arrears of trade licenses, industry taxes and business taxes Rs.2,311,735 as at the end of preceding year.</p>	<p>Actions will be taken to recover arrears of revenue promptly.</p>	<p>-do-</p>
<p>(c) Other Revenues</p> <p>(i) The billed revenue for the year 2022 related to 04 water projects as per the reports submitted was Rs.33,059,875 and the arrears of water charges as at 31 December 2022 was Rs.15,497,025. Accordingly, 47 per cent of the revenue of the year had remained as arrears of revenue.</p>	<p>Actions will be taken to reduce the arrears of water charges by a considerable level.</p>	<p>Actions should be taken to achieve revenue targets.</p>
<p>(ii) The court fine revenue and the stamp duty revenue amounting to Rs.59,854,023 and Rs.1,148,750 respectively should have been received from the Secretary of the Provincial Council and Other Authorities as at 31 December 2022.</p>	<p>Actions were taken to recover the value of outstanding court fines and stamp duty.</p>	<p>-do-</p>

3. Operational Review
3.1 Performing of Tasks Assigned by the Act

The matters observed in respect of executing of functions that should have been performed by the Sabha such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

Audit Observation	Comments of the Sabha	Recommendation
(a) By- laws		
By-laws had not been enacted for the 03 issues of weekly fair levy, three-wheeler charges and sales promotion programmes for which the by-laws should have been enacted under Section 126 of the Pradeshiya Sabha Act.	Actions are being taken to enact all the by-laws during the year 2023 .	Necessary by-laws should be enacted.
(b) Solid Waste Management		
There was no specific method to dispose of the non-biodegradable waste collected annually by the Pradeshiya Sabha and an amount of about 434 tons collected so had been buried in the Dambagaha Ulpatha Dump Yard.	The construction works of Dambagaha Ulpatha Dump Yard is being carried out promptly by now and actions will be taken to recycle non-biodegradable waste in the year 2023 .	Attention should be drawn to an environmental friendly solid waste management programme.
(c) A Budget was not passed and provision was not made available for the maintenance of the water treatment plants operated by the Dimbulagala Pradeshiya Sabha in the year under review and out of the revenue collected in the	Since the capital expenditure was restricted due to non-passage of the Budget 2022, it has not been possible to bear a considerable value as an expense and it is being operational in the year 2023.	Adequate provision should be made available for maintenance of water projects.

year amounted to Rs.32,429,861 a sum of Rs.654,640 which is less than 2 per cent of the income, had been spent on water treatment plant maintenance. As a result, it had been adversely affected on water quality, equipment safety and proper revenue collection.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although 6557 water connections had been provided by 04 water projects belonging to the Sabha, 1167 related water meters that is 17.8 per cent consisted of inactive water meters.	Necessary activities are being carried out by now.	Progress should be reported.
(b) Although more than 06 years had elapsed since 05 laptops and 02 iPads which were given to the Members in 2015 by spending Rs.754,930 from the funds of the Sabha, those were not received back to the Sabha and although 06 Members who could not return 05 laptops and an iPad had agreed to pay the related value in 30 installments from 26 June 2019, that payment had also been defaulted.	It has been notified in writing to settle the relevant value to the Sabha.	Legal actions should be taken.

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| (c) | Although more than 08 years had passed since the 360 galvanized flagpoles that were given to the Sabha on 16 December 2014 were issued to the former Chairman and 05 Members, they had not been received by the Sabha. | Arrangements were made to make aware the relevant Members. | Legal proceeding should be taken to recover. |
| (d) | In making water charges during the period from June 2016 to 28 June 2017, disciplinary orders had been imposed regarding the exclusion of Rs.2,625,660 in the duplicate of the amount mentioned in the original copy of the receipts when taking actions in terms of Section 23.7 of the Code of Disciplinary mentioning the exclusion value as Rs.1,171,782. | Written requests have been made to the Commissioner of Local Government to conduct an inquiry in respect of the difference in the value. | Information should be submitted to identify the correct value and impose disciplinary orders. |
| (e) | Even though the disciplinary orders were imposed on 27 December 2021 identifying the financial loss made by the revenue administrator of Dimbulagala Pradeshiya Sabha in the year 2011 as Rs.1,367,681 actions on that had not been taken even by April 2023 . | Necessary actions will be taken. | Actions should be taken to implement the disciplinary order. |

3.3 Procurement Management

Audit Observation	Comments of the Sabha	Recommendation
The goods valued at Rs.1,127,472 had been purchased in 09 cases in contrary to procurement procedure without identifying the needs of the Sabha and having enough registered suppliers for procurement.	As the operations of the Sabha should be carried out, necessary arrangements were made for the immediate purchase of the said goods.	Actions should be taken in terms of Procurement Guidelines.

3.4 Shortcomings in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
(a) A contract had been entered into with a society on 25 October 2021 for the completion of the remaining works of the vehicle service center at an estimated value of Rs.2,034,430 an advance of Rs.406,886 had been paid for that. Although the contract period has ended on 25 April 2022, the relevant work had not been completed even by the end of the year under review.	Actions were taken to inform the contractor to complete the construction works of the relevant project as per the agreement.	Actions should be taken to achieve desired objectives.
(b) Advance payment of Rs.1,170,668 had been paid for 07 rural road development projects using gravel approved by the Sabha Meeting on the proposals of the Sabha Members under the Pradeshiya Sabha Funds 2021, the works on the projects had not been	Legal proceedings are being carried out.	Recovery details should be reported.

commenced and actions had not been taken to get settled the advance amount of Rs.1,170,668 paid for that.

3.5 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
There were 12 vacancies in the staff as per approved and actual staff information as at 31 December 2022.	The relevant institutions have been informed about the employee vacancies.	Arrangements should be made to fill up the vacancies.

4. Accountability and Good Governance Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
Dimbulagala Pradeshiya Sabha had not passed a Budget for the year under review as per Section 168 (2) of the Pradeshiya Sabha Act No. 15 of 1987.	With the injunction imposed by the court, the Budget could not be passed.	Actions should be taken to carry out the purposes of establishing a Sabha under the Pradeshiya Sabha Act.