

Homagama Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Homagama Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of assets and liabilities as at 31 December 2023 and the statement of comprehensive income, statement of changes in net assets / equity and cash flow statement for the year then ended, and notes to the financial statements, including significant accounting policy information, 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 Subsection 172 (1) of the Pradeshiya Sabhas 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 reported 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 Homagama Pradeshiya Sabha as at 31 December 2023, 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

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 Standard 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented are 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 include 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 related to the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Expenditure amounting to Rs.1,300,000 payable for the repair of the backhoe loader of the Council had been accounted twice as a creditor.	Action will be taken to eliminate from the register of creditors.	Action should be taken to account accurately.
(b) Fifteen (15) Solar Lamps worth Rs.1,927,500 purchased on 01 November 2023 had not been indicated under fixed assets.	Since those assets were purchased through recurrent expenditure allocations, they were not included under fixed assets, but they will be included in the fixed assets register based on the cost incurred and the effective life.	Action should be taken to account accurately.
(c) The cheque amounting to Rs.375,558 received for leasing out the pork shop in the public trade complex in Homagama for 2 months in the year 2023 had been dishonoured and the fine to be paid for that amounting to Rs.18,778 and the arrears of electricity bill to be received for the shop amounting to Rs.33,641 had not been accounted as receivables.	Indicating the electricity bills as receivables had been omitted and even though the fines should be collected, indicating the fines as receivables has been missed.	Action should be taken to account accurately.
(d) Depreciation had not been done for buildings amounting to Rs.233,517,988, indicated at cost value as at 31 December 2023.	Buildings were not depreciated.	Action should be taken to revalue and depreciate the assets.
(e) The information about a negative balance amounting to Rs.636,706, which had been indicated as adjustments under the operating	Comments were not submitted.	Accurate information should be submitted to the audit.

activities in the cash flow statement had not been submitted to the audit.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
Since the total cost of the travel charges had been Rs.1,377,484 indicated in Note No. 8 submitted along with the financial statements and the total cost of the travel charges included in the schedule of expenses had been Rs.1,484,799, there had been a difference of Rs.107,315.	The total cost of travel charges amounting to Rs. 1,377,484,89 indicated in Note No. 08 is correct and the total cost of travel expenses included in the schedule of expenses should be revised as per Annexure 09 (i) (ii).	Action should be taken to identify and rectify differences.

1.6.3 Documentary Evidence Not made available for Audit

Item	Amount Rs.	Audit Evidence Not Provided	Comments of the Council	Recommendation
(a) Stock of electrical goods	43,320	Bin cards / other documents that can be checked	There are further issues in adjusting these stock balances, which do not exist physically and prevailing over number of years as it was not possible to find any source document.	Investigations should be conducted and the problem should be resolved.
(b) General inventory goods in stores	8,361,983	Bin cards / other documents that can be checked	There are further issues in adjusting these stock balances, which do not exist physically and prevailing over number of years as it was not possible to find any source document.	-Do-
(c) Refundable deposits	4,981,664	Schedules	Arrangements will be made to take the unidentified general deposit balances to the revenue in the year 2024.	The relevant schedule should be submitted to the audit.

1.7 Non-Compliance

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

The instances of noncompliance to laws, rules, regulations and management decisions are mentioned below.

	Reference to Laws, Rules and Regulations	Non-Compliance	Comments of the Council	Recommendation
(a)	Section 143 (1) of the Pradeshiya Sabhas Act No. 15 of 1987	A new assessment had not been provided in relation to 107 buildings, for which compliance certificates had been given by the Pradeshiya Sabha in the year 2023.	The assessment values will be revised correctly through the new assessment conducted by the Department of Valuation for 68 properties, for which assessment numbers had not been issued.	Action should be taken to assess expeditiously.
(b)	Paragraph 22.4 of the Chapter xiii-Leave of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Although the details of all the unpaid leave must be reported monthly to the Auditor General, the Council had not reported the details of unpaid leave to the audit.	Action will be taken to report to the Auditor General monthly.	Action should be taken in terms of the Establishments Code.
(c)	The Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	F.R. 110 (1)	Even though there had been thefts/losses of goods owned by the Pradeshiya Sabha in the years 2022 and 2023, the Pradeshiya Sabha had not maintained a register on damages and losses to record the damages in a register.	In the future, damage and loss registers will be maintained accurately.	Action should be taken in terms of the Financial Regulations.

(ii)F.R.341 316 (c)	A register on counterfoil books had not been maintained in relation to 3340 of the counterfoil books.	A register of counterfoil books will be prepared and it will be implemented as pointed out by the audit.	Action should be taken in terms of the Financial Regulations.
(iii) F.R. 571	Action had not been taken in terms of the Financial Regulation in relation to the public works deposits amounting to Rs. 18,635,215, which had been prevailed for more than 02 years from the year 2009.	Arrangements will be made to take it to revenue in the year 2024.	Action should be taken in terms of the Financial Regulations.
(d) Paragraph 2:3:2 (c) and paragraph 3.1 of the Guidelines 2023 of the Central Environment Authority	Twenty-two (22) businesses that should obtain environmental protection licenses had carried out business activities without obtaining licenses in the previous year and in the current year.	Action has already been taken in relation to the 22 business locations mentioned in the audit query.	Action should be taken in terms of the Guidelines.
(e) Circular No. LGD/04/2016 dated 28 April 2016 of the Commissioner of Local Government of Western Province	Fixed deposits amounting to Rs.80,000,000 had been withdrawn in the months of February and March 2023 by deviating from the procedures mentioned in the Circular.	Necessary action will be taken in the future as per the Circular.	Action should be taken in terms of the Circulars.

1.7.2 Non-compliance with Tax Requirements

Audit Observation	Comments of the Council	Recommendation
Even though the details of the payment of VAT should be notified to the Commissioner General of Inland Revenue with a copy to the Auditor General on or before the 15 of the following month after the payment as per 5.4.11 of the Government Procurement Guidelines, the Council had not taken action in that manner in	Action will be taken to submit the report on the payment of tax to the Commissioner General Inland Revenue with a copy to the Auditor General before the 15th of the following month.	Action should be taken in terms of the Procurement Guidelines.

relation to VAT amounting to Rs.4,846,017 paid in the year 2023.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue, which had exceeded the expenditure of the Pradeshiya Sabha for the year ended 31 December in the year under review had been Rs. 373,112,282 and in contrast to that, the expenditure, which had exceeded the revenue in the previous year had been Rs. 37,738,951.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue Arrears

According to the information submitted by the Secretary of the Council, information related to the estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review

Revenue Source	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	228,802,100	178,254,149	176,899,549	123,023,521	137,990,912	283,704,571	170,489,809	117,009,558
Rents	18,969,400	19,435,205	18,521,551	(9,000)	17,167,850	240,392,750	13,463,734	226,929,015
License Charges	5,790,600	4,746,440	4,838,438	25,060	6,100,556	4,062,484	3,946,625	115,859
Other Revenue	632,928,600	843,659,755	973,412,950	620,965,649	359,252,660	981,255,856	431,474,550	549,781,305
Total	886,490,700	1,046,095,549	1,173,672,488	744,005,230	520,511,978	1,509,415,661	619,374,718	893,835,737

and for the previous year are mentioned below.

2.2.2 Performance in the Collection of Revenue

	Audit Observation	Comments of the Council	Recommendation
(a)	The assessment value amounting to Rs. 122,835,410 that should be recovered to the Council as at 31 December 2023 had not been recovered so far.	All efforts will be made to recover these outstanding balances.	Action should be taken to recover arrears of assessment taxes.
(b)	Although a committee decision had been taken on 22 May 2023 to take court decisions on nonpayment of entertainment taxes by a Cinema hall located in the limits of Pradeshiya Sabha for the year 2022 even by the date of audit, the	It has been forwarded to the Secretary of the Ministry for further instructions.	Action should be taken to recover Entertainment tax from Cinema halls.

institution had not been made aware of this decision and action had not been taken to collect taxes.

- (c) The amount of court fines that should have been received by 31 December of the year under review from the Chief Secretary of the Pradeshia Sabha and other authorities had not been calculated and the amount of stamp duty receivable had been Rs.326,678,000. That was the amount of fees for the year 2022. Action should be taken expeditiously to recover the stamp duty to be recovered.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Even though an amount of Rs. 5,565,440, receivable in relation to 58 roads and 05 roads in the years 2022 and 2023 respectively, subject to personally restoring the damages of the roads due to damaging the roads to obtain water supply, had been released on the decision of the Council without checking that the roads had been restored, follow-up had not been carried out to check whether the roads had been restored.	Deposits had been released for 58 road damages in the year 2022 and 05 road damages in the year 2023 for getting the water supply.	The deposit should be released after getting confirmation that the roads have been restored.
(b) An amount of Rs.1,176,600 spent by the Council for the cremation of the bodies of those who died due to corona disease for the years 2021 and 2022 had not been reimbursed to the Council by the Department of Local Government (Western Province) even by the end of 2023.	Reminders have been sent again to the Commissioner of Local Government.	Arrangements should be made to promptly reimburse the amounts receivable.
(c) A value of Rs.2,749,290, which would never be expected to be received by the Council in the near future, had been accounted as general advance balance.	Documents could not be found to forward the request of writing off the outstanding balance of advances belonging to the year 1999 and to earlier periods to the Assistant Commissioner of Local Government for granting approval.	Necessary action should be taken to settle.

(d) The balance of miscellaneous creditors, warehouse creditors, general industry creditors and provincial council creditors had been Rs.103,934,178 as at 31 December 2023. It will be taken to revenue in the year 2024. A formal approval should be obtained and arrangements should be made to take to the revenue.

3.2 Asset Management

Audit Observation	Comments of the Council	Recommendation
<p>Due to adjusting the rental income of Rs.900,000 receivable for the year 2023 from the Megoda Economic Centre, and which was uncertain to be received to the Council due to the non-settlement of lands and erroneous nature of the agreement, and the arrears fine amounting to Rs.27,450,000 to the revenue of the year, the surplus of the year under review had been overstated by Rs.28,350,000 and recovery of the total amount of Rs.255,150,000 receivable as at 31 December of the year under review was uncertain.</p>	<p>The payment of rent has been stopped based on the argument of the Board of Trustees of the Megoda Economic Centre that this property was not owned by the Council as the ownership of this land has been mentioned as a government owned land in the survey of lands for Bim Saviya.</p>	<p>Action should be taken to obtain the legal ownership of this property.</p>

3.3 Contract Administration

Audit Observation	Comments of the Council	Recommendation
<p>A sum of Rs. 2,512,333 had been incurred as the total cost after entering into a contract with a contractor for a sum of Rs. 11,542,534 on 31 December 2020 for the construction of Munasinghagama Pre-School and Community Hall. It took 04 months to demolish the old building, delay in payment of the first bill by 08 months, non-payment of the second bill had been cited as the reasons for the delay in the construction of the building and due to the huge increase in the price of building materials within 02 years, the construction had been abandoned by the contractor by informing that the work of the building could not be carried out.</p>	<p>It is accepted that there were delays in the construction and we will pay close attention to minimize these delays in the future construction works.</p>	<p>Attention should be paid to minimize the delays in construction activities.</p>

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
Action had not been taken to recover the disaster and festival loan amounting to Rs.1,675,957, out of the employee loan balance amounting to Rs.38,646,378 to be recovered as at 31 December 2023, to be recovered from 25 persons, who were dead, retired, vacated the posts and were transferred.	The amount to be recovered from 25 persons who were dead, retired, vacated the posts and were transferred had been Rs.1,675,957.25, within the loan balance of the employees to be recovered by 31 December 2023.	Action should be taken to recover the employees' loan amounts.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
(a) Allocations made for 71 objects and totalling to Rs.17,006,000 had been fully saved.	Accepted	The requirement should be identified and the budget should be prepared based on the requirement.
(b) Although Rs.19,277,100 had been allocated for 41 Objects, an amount more than 75 percent of it had not been spent and the amount spent had been Rs.17,585,952.	Accepted	The Budget should be used as an effective control tool.