

Devinuwara Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Devinuwara Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position, as at 31 December 2021 Statement of Financial Operations, Statement of Changing 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 accompanying financial statements give a true and fair view of the financial position of the Devinuwara Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows 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 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 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Lack of Documentary evidence for audit

Audit Observation	Comment of the Sabha	Recommendation
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06 accounting items totaling to Rs.8,825,338 could not be satisfactorily examined during the audit due to non-submission of schedules, title deeds, updated fixed assets register, land and building documents and survey reports.	The action will be taken to update relevant schedule.	Evidence supporting to the account balances shown in the financial statements should be submitted.

1.7 Non - compliances

1.7.1 Non - compliances with laws, rules, Regulations and Management Decisions etc.

Non - compliances with laws, rules, regulations and management decisions are as follows

Reference to laws, rules regulations	Non - compliance	Comment of the Sabha	Recommendation
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Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	The actions had not been taken to regulate 219 custodial deposit balances of Rs.1,357,269 exceeding 02 years.	The arrangements are being made to take action on overdue deposits.	The actions should be taken according to the regulations

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 amounted to Rs. 19,207,364 as compared with excess of revenue over recurrent expenditure amounted to Rs. 25,266,485 in the preceding year.

2.2 Performance of Revenue Collection

(a) Assessment

Audit Observation

There were 3582 assessment units in the year under review, and as at the end of the year there was an outstanding balance of Rs.5,081,031 from 651 assessment units.

Comment of the Sabha

Due to the corona epidemic in the country, movement restrictions were imposed, so it could not possible to collect the arrears.

Recommendation

Arrears of income should be collected promptly.

(b) Acreage Tax

Audit Observation

There was an outstanding balance of Rs.73,778 as at the end of the year under review.

Comment of the Sabha

The survey activities have been started by the newly appointed committee.

Recommendation

Arrears of income should be collected promptly.

(c) Rent Tax

Audit Observation

146 shops were leased in the year under review, and there was an outstanding balance of Rs.12,858,556 from 91 shops as at the end of the year.

Comment of the Sabha

The lessees have been notified in writing to collect the arrears.

Recommendation

Arrears should be collected promptly.

3. Operating Review

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 Operating Inefficiencies

Audit Observation

A 2-storied hotel building with 289.30 square meters on Talalla Lagoon Road was constructed without a proper development permit and the planning and development orders/regulations of the Urban Development Authority were carried out in accordance with Sub-Section 02 of the Gazette Notification No. 2235/54 dated 08 July 2021. It was observed that the actions had not been taken to charges of Rs.867,900 from 578.6 square meters at a rate of Rs.1500 per meter and regularize or remove the construction.

Comment of the Sabha

The observations are accepted.

Recommendation

The actions should be taken in accordance with the gazette notification.

3.2 Deficiencies of Contract Administration

Audit Observation

- (a) An amount of Rs. 432,831 had been paid to a certain Construction Society in the year under review for the development Work of Talalla South Muhandiram Watta Road under the 2020 Sapirigamak People's Participation Program however the concrete was not laid to the required thickness, the concrete mix laid on the road was not Grade 20 strength therefore it was observed that the awarding of the contract had been done informally.
- (b) A construction estimates of Baddegammedda Volleyball Stadium, had been prepared for Rs. 1,467,466 on 18 March 2021, and assigned to a certain Community Development Society on 4 October of the year under review. By 23 February 2022, 141.28 cubic meters of soil with economic value had been censored from the land owned by the council to build the stadium, and about 14 cubic meters of it had been transported by the council's drivers and workers to a hotel under construction in Devinuwara,

Comment of the Sabha

While making payments to these works, core samples were not taken and payments had been made based on the status inspection reports of strength measurement on 7th and 28th days, and contract offers were made after taking affidavits from the contraction societies that they are capable of performing on credit basis.

Recommendation

The construction should be done according to the prescribed standard and the offering of contract should be done properly.

The resources of the Sabha should be used in the most effective way.

possessed by the Chairman of the Sabha which is not mentioned in the license obtained from the Bureau of Geological Survey and Mines, without charging any fees.

- (C) Rs.170,476 had been paid informally to the Uswatta Road sidewall development work on two occasions in the years 2019/2020, however the contractor society presented fake bill again on 02 April 2018, and submitted it for payment in the year under review.
- The observations are accepted.
- The Payment should be made only for work performed.