

## **Divulapitiya Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Divulapitiya Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement, statement of changes in net assets/ 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 provisions of the National audit act No.19 of 2018 and the Sub-section 172 (1) of the Pradeshiya Sabha Act No.15 of 1987. 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 Divulapitiya Pradeshiya Sabha as at 31 December 2020, 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 express qualified opinion based 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, 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 recommendations which I made on financial statements for the preceding year has been included 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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Reference to Non-compliance relevant Standard	Comments of the Sabha	Recommendation
3.9	Although there are some quantitative differences between the actual values of the actual, budgeted and the values of pre-comparison periods and the reasons for them should be disclosed in a way that makes it easier to compare budgeted information in financial statements, it had not been so done.	Arrangements will be made to use the relevant Forms in preparing the final accounts for the year 2021. Actions should be taken in terms of Accounting Standards.

## 1.6.2 Accounting Deficiencies

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<b>Non- compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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(a) As the depreciation had not been calculated and brought to accounts for the property, plant and equipment amounting to Rs.1,019,963,624 in the year 2020 , each of the surplus of the year and the balance of the property plant and equipment had been overstated by Rs. 29,511,830.	Information will be included in preparing the accounts for the year 2021.	Accounts should be maintained in accordance with the Standard.
(b) The total value of two software systems applied for the revenue management amounting to Rs.1,070,000 had not been capitalized.	It will be corrected in the year 2021.	All the assets should be capitalized.
(c) As a result of Rs.19,650,487 which was the value pertaining to the year from the capital grants received during the year under review amounting to Rs.193,585,887 was not transferred to the transfers from government for non-recurrent expenses account , the surplus in the comprehensive income statement had been understated by that amount.	The amount identified annually from the capital grants received for the year 2020 will be entered into the comprehensive revenue statement from the year 2021.	Accounts should be accurately prepared.
(d) As a result of a sum of Rs.131,572 that had been overcharged from employees in previous years was deducted from the distrss loan balance to be recovered and shown it in the accounts, the employee loan balance had been understated by Rs.131,572 in the financial statement.	Actions will be taken to take the overcharged amount of Rs.131,572 to the Deposit Register and to correct through the journal entries.	Arrangements should be made to accurately adjust the employee loans.
(e) A sum of Rs.514,000 received in the year 2016 from the Divisional Secretariat as administrative expenses for the implementation of decentralized contracts, had been accounted for as sundry deposits without taking into income.	Arrangements will be made to take to the revenue	Actions should be taken to identify it as revenue.
(f) A sum of Rs.67,368 received from Divulapitiya Divisional Secretariat for administrative expenses incurred by the	It is informed that this has been recorded in the register of debtors and	Actions should be taken to recover.

Council for the operation of Decentralized made the repayment. Contracts had been paid to the officers instead of accounting for as an income.

- (g) A sum of Rs.305,000 charged from workplace owners on 35 occasions for using the Pradeshiya Sabha Road for the transportation of granite, gravel and cobblestones had been accounted for as deposits instead of bringing into accounts as an income. Arrangements will be made to take to the revenue. Actions should be taken to identify it as revenue.

### 1.6.3 Balances Receivable and payable

Non- compliance	Comments of the Sabha	Recommendation
<p>Thus the value of contract debtors was Rs.105,871,063 as per financial statements and Rs.136,958,722 as per schedules, there was a difference of Rs.31,087,659 and actions had not been taken to recover a sum of Rs.8,724,548 in arrears in between the year 1 – 3 and Rs.97,146,478 less than 01 year within the debtor balance.</p>	<p>These differences have been remaining for many years. When checking existing documents and cash books, the information given to the final account is incorrect. Future actions will be taken by checking furthermore in this regard. Actions will be taken to recover the receivables as per the schedules.</p>	<p>Arrangements should be made to find the differences and prepare financial statements according to accurate data and for the recoveries.</p>

### 1.6.4 Lack of Evidence Required for Audit

Non- compliance	Comments of the Sabha	Recommendation
<p>The information required for the audit had not been submitted in respect of 03 account items amounting to Rs.54,023,294.</p>	<p>The undocumented balance of other income in arrears had been Rs.36,313,796 as per financial statements 2019 and it has been Rs.31,088,000 as per financial statements 2020. Accordingly, a sum of Rs.5,225,796.00 has been corrected providing documents. Unrecognized General stock is an error that has been remaining since 2010 . It will be checked and future actions will be taken.</p>	<p>Actions should be taken to submit documents and schedules.</p>

## 2. Financial Review

### 2.1 Financial Results

The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs.72,591,000 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs.21,962,179 .

### 2.2 Revenue Administration

#### Non- compliance

#### Comments of the Recommendation Sabha

Actions had not been taken to recover the balance of arrears of rates amounting to Rs.2,582,658 as at 31 December 2020.

Actions are being taken to recover the arrears of rates.

Legal actions should be taken to recover the rates.

#### 2.2.2 Trade Stall Rent

#### Non- compliance

#### Comments of the Sabha

#### Recommendation

Although the assessed rent should be revised at least once in every five years in accordance with the circular for leasing of trade stalls of the Commissioner of Local Government dated 31December 1980 and No. 1980/46, it had not been so done for 58 shops owned by the Sabha.

Even though a deposit of Rs.150,000 had been obtained on 28 July 2020 for 03 trade stalls out of 05 in which the monthly rental was Rs.3,500 and failure to lease out since 2014, had not been made suitable for business activities. Within the balance of rent arrears as at 31 December 2020 amounting to Rs.713,505, there was an amount of Rs.97,020 that had not been recovered for more than 01 year.

Arrangements will be made to inform the Valuation Department to provide the new rent assessments and take actions to obtain the new rent assessments. Although 05 trade stalls were tendered several times those trade stalls have not been obtained on lease. It has been decided to recover the deposit of Rs.50,000 /- each as this was presented to the Sabha on 14.07.2020. Accordingly, a sum of Rs.150,000 /- has been charged for Receipt No. 76526 dated 28.07.2020 for Nos. 17,18,20 on the upper floor of Divulapitiya weekly fair premises. It is informed that the action will be taken to recover the arrears of trade stalls.

Prompt actions should be taken to obtain new assessments and to recover rent and arrears of rent accordingly.

### 3. Operating Review

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The matters observed in respect of executing of functions that should have been performed by the Council 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.

#### 3.1 Failure to Obtain the Expected Benefits

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<b>Non- compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<p>-----</p> <p>The Hela Bojun Stall at Walpita Thuru Sevana Bhoomi, which was completed by 18 December 2019 at a cost of Rs.1,846,590 was in an underutilized condition without taking the necessary steps to generate income even by 31 December 2020.</p>	<p>-----</p> <p>A letter of Chief Valuer dated 16.11.2020 has been received stating that the monthly government assessed rent was Rs.15,250, for leasing out the Hela Bojun Stall in Walpita Thuru Sevana premises and actions are being taken to lease out by calling tenders accordingly.</p>	<p>-----</p> <p>Actions should be taken to earn income from the properties of the Sabha.</p>

#### 3.2 Abandoned Tasks

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<b>Non- compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<p>-----</p> <p>Even though spending a sum of Rs.500,000 in the year 2014 under the guidance of National Engineering Research and Development Center (NERD) of Sri Lanka and setting up a biogas generator in the Sabha premises and training an employee of the Sabha also to carry it out, the NERD had removed that project from the list. Even though the Sabha has informed by the letter No. N/NED /COM /02/09/2014/ 2020-01 of NERD dated 04 March 2020 that the errors should be checked before replacing the Unit again, the Project had been abandoned without obtaining the desired outcomes even by 31 December 2020.</p>	<p>-----</p> <p>Since the curfew was imposed in the year 2020 due to the Covid epidemic the activation of the works on the Biogas Unit has been halted.</p>	<p>-----</p> <p>Actions should be taken to implement the project without delay by providing the relevant infrastructure.</p>