

## **Divulapitiya Pradeshiya Sabha - 2021**

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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 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in 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 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 financial statements give a true and fair view of the financial position of the Divulapitiya 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 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 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 Sabha	Recommendation
<p>(a) The total value of 18 industrial projects contracted as at 31 December of the year under review amounted to Rs. 25,454,000 but not completed its works had been debited as other receivables in current assets instead of crediting the creditors and debiting them as work- in- progress.</p>	<p>Actions will be taken to correct .</p>	<p>It should be accurately accounted for.</p>
<p>(b) While calculating the fixed assets, although the furniture and equipment with a revaluation/cost value of less than Rs.5,000 should be removed from property, plant and equipment, and entered in the inventory books and included in the Annual Board of Surveys, in terms of the Local Government Commissioner's Circular No. LGD/10A/ச.ச./2021 dated 04 January 2022, a number of 214 such items with a total value of Rs.500,498 in the Pradeshiya Sabha had been accounted for under property, plant and equipment.</p>		

(c) As a result of inventory items valued below Rs.5,000 were accounted for under non-current assets, a sum of Rs.117,233 had been overstated as depreciation provisions for the years 2020 and 2021.

(d) Due to the fact that 08 transactions and events amounting to Rs. 2,420,385 were shown as other receivables in the statement of assets and liabilities without making adjustment to the Expenditure Heads of the year under review, the surplus of the year had been overstated by that amount.

(e) The total value of 8 purchases of capital assets that had made provisions for creditors in the year under review amounted to Rs.954,079 had been accounted for as other receivables in current assets instead of accounting as property, plant and equipment under non-current assets.

(f) Although it had been stated that a report should be included in the account containing information according to the formats for all reserves and allocations, as per the Local Government Commissioner's Circular No. LGD/10A/ 20.8./ 2021 dated 04 January 2022 such a report had not been submitted with the Sabha's financial statements.

(g) The balance of depreciation provision accounts of 7 categories of property, plant and equipment had been overstated by Rs.162,451 and the balance in the depreciation provision accounts of 2 property plant and equipment had been understated by Rs, 56,286 as per the financial statements of the year under review.

Actions will be taken to correct .

It should be accurately accounted for

Actions will be taken to correct .

It should be accurately accounted for.

### 1.6.2 Balances Receivable and Payable

----- Audit Observation -----	Comments of the Sabha -----	Recommendation -----
As the balance pertaining to the 4 accounting items shown in the financial statements was Rs.328,755,376 and the balance shown in the schedules was Rs.271,064,232, the difference of Rs. 57,691,144 was observed.	These changes in 04 accounting items are the changes that have been remaining since before the year 2021. It is informed that the relevant duty will be assigned to the officers and look into this and actions will be taken.	Actions should be taken to identify the differences and to correct.

### 1.6.3 Lack of Evidence for Audit

----- Item -----	Amount Rs. -----	Audit Evidence Unavailable -----	Comments of the Sabha -----	Recommendation -----
Six account balances could not be satisfactorily vouched due to non-submission of required information.	17,981,571	Schedules	Six of these account balances, are the balances remaining from the final account before the year 2015 and I hereby inform that the officers in charge of the subject will be informed to provide information to check and settle the matter.	Actions should be taken to identify the differences and prepare schedules and settle outstanding balances.

## 1.7 Non-compliance

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Sabha	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 371	The advances totalled to Rs.2,980,679 as Rs.2,070,429 provided for procurement of materials, machinery and fuel to 13 institutions and individuals in the years 2008 and 2009, a sum of Rs.844,250 given to an external person for providing coconut and rice subsidies to 2 local government bodies in the year 2020 and Rs.66,000 given to a cooperative society for getting fuel in the year 2013 had not been settled even by 10 June 2022 .	A preliminary inquiry has been recommended and sent to the Commissioner of Local Government regarding outstanding advances since 2007. The Commissioner of Local Government has informed the Secretaries of Gampaha, Mahara Panadura to pay the advance amount of Rs.844,250.	Unsettled advances should be recovered as per the Financial Regulation.
(b) Section 20 of the Taxation and Assessment Act No. 30 of 1946	Although the assessment of rates should be done once in 05 years by the Department of Valuation, the last time the Pradeshiya Sabha conducted the rates assessment related to the shops in the Divulapitiya weekly fair area was the year 2014.	The Valuation Department was informed by the letter dated 25/05/2022, to get new shop rent assessment Divulapitiya weekly fair	Actions should be taken to get the assessment new rates by sending reminders without delay.

## 2. Financial Review

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### 2.1 Financial Results

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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. 48,140,000 as compared with the revenue over recurrent expenditure amounted to Rs. 72,591,000 in the preceding year.

### 2.2 Revenue Administration

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#### Performance on Revenue Collection

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Audit Observation -----	Comments of the Sabha -----	Recommendation -----
<b>Rates and Taxes</b> -----		
(a) Within the balance of arrears of rates amounting to Rs.3,732,641 as at 31 October 2021, there were the balances for more than 10 years amounting to Rs.9,403, Rs.16,220 in between 5 and 10 years, Rs.23,832 between 3 and 5 years, Rs.1,783,070 between 1 and 3 years and Rs.1,900,116 less than 01 year. Refusal of payment of rates on provisional assessment by tenants had caused to the arrears in between 1 and 3 years .	As the payment of rates was defaulted according to the provisional assessment of special property, it is informed that the actions are being taken to recover the arrears of rates as per the discussion conducted by the respective property owners and as decided by the Sabha.	Actions should be taken to obtain a new permanent assessments for properties and recover arrears of rates accordingly.
(b) The Pradeshiya Sabha jurisdiction was declared as a developed area in the Gazette of the Democratic Socialist Republic of Sri Lanka No. 1484 dated 09 February 2007 . Although the total number of properties was identified as 57,872 according to the property verification conducted by the	It is informed that the new assessment activities have already been started and will be conducted at the sub-office level.	Actions should be taken to obtain new permanent assessments for properties and charge rates from all the properties accordingly.

Pradeshiya Sabha, the Sabha had levied rates on only 1,116 residential properties, 1,573 commercial properties and 128 other properties out of a total of 2,817 properties even by the year 2021 . Although a number of 17,545 properties had been handed over to the Department of Valuation for valuation in April 2021, new assessments had not been given even as at 30 March 2022 .

### 3. Operating Review

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#### 3.1 Human Resources Management

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##### Employee Loans

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##### Audit Observation

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A sum of Rs. 693,095 was in arrears from 40 employees on transferred, deceased, retired, and left the service as at 31 December 2021 .

##### Comments of the Sabha

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Actions are being taken to recover the balance of Rs. 196,634 out of the balance of Rs. 361,275 from the death gratuity to write off the remaining balances and actions are being taken to find personal addresses for unrecovered employee loans, to find out about transferred locations.

##### Recommendation

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Actions should be taken to recover employee loans and write off the loan balance decided to be written off with the formal approval.



### 3.2 Management Inefficiencies

----- <b>Audit Observation</b> -----	----- <b>Comments of the Sabha</b> -----	----- <b>Recommendation</b> -----
<p>It was observed that the rent was being collected based on the assessment of the year 2014 due to the non-receipt of the report of the assessment made by the Government Valuer in December 2021 for 20 shops in the Divulapitiya Public Market and as a result of the last assessment of the 38 trade stalls in Walpita Tarusewana was done in the year 2008, the monthly rent of a trade stall was as low as Rs.400. Although the approval of the Sabha was received on 25 November 2021 for the purpose on the instructions received from the Department of Valuation to prepare the plans for the next assessment, the activities of preparing plans had not been started even by 10 June 2022 .</p>	<p>It was also informed on 26 May 2022 to provide the new shop rent assessment. It is informed that after receiving the assessment report, the new shop rent will be collected.</p>	<p>Arrangements should be made to obtain the assessment report which was made by the Government Valuer, to prepare the plans for future revision of assessments and collection of rents based on new assessments.</p>

### 3.3 Idle or Underutilized Property, Plant and Equipment

----- <b>Audit Observation</b> -----	----- <b>Comments of the Sabha</b> -----	----- <b>Recommendation</b> -----
<p>Even though the Hela Bojunhala, which was built at the cost of Rs. 1,846,590 in the of Walpita Thurusevana premises, had been completed by 18 December 2019, the project report was submitted to the Council Meeting and passed on 30 September 2021 . Due to the fact that this construction was done without carrying out a proper study of the lessee the building had remained in idle even by the 10 June 2021.</p>	<p>The project report has been submitted to the Council Meeting on 08 April 2022 and a newspaper advertisement has been published for tender and lease out.</p>	<p>Actions should be taken to carry out the construction after conducting a proper study on the demand and to continue the tender activities after obtaining new assessment.</p>

### 3.4 Assets Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Six vehicles with a total value of Rs.31,879,173, including 03 vehicles received from the Ministry of Public Administration and 03 vehicles received from the Ministry of Local Government, which were not submitted for audit the date of receipt of to the Sabha had not been transferred in the name of the Sabha even by 31 December 2021 .	It is informed that the arrangements are being done.	Arrangements should be made to transfer the vehicles.

### 3.5 Environmental Issues

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
It was observed that an environmental pollution had occurred due to the fact that a specific place had not been set to store the garbage collected by the Sabha before taking it to the garbage centre and although an estimate of Rs.680,000 has been decided in the Technical Committee on 18 February 2022 for setting a suitable place for garbage storage, actions had not been taken to award the contract even by 10 June 2022 .	It has been decided under No. 01.09 of the Technical Committee dated 18 February 2022 to prepare a suitable place to store garbage.	Actions should be taken to collect only garbage separated into biodegradable and non-biodegradable waste and to take the collected separated garbage directly to Kerawalapitiya Garbage Centre.