

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Dehiowita Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Dehiowita Pradeshiya Sabha as at 31 December 2022, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 Sub-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 Sabha.

1.4 Scope of Audit (Auditor's Responsibilities 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 skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 presented by the Pradeshiya Sabha 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 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

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
a)	A revenue of Rs.139,640 receivable for the year under review, had not been brought to accounts.	That value had been recorded in the register of dishonored cheques as Rs. 149,360.	Accuracy should be ensured in preparing accounts.
b)	A bailer machine worth Rs. 800,000 received as a donation in the year 2021, had not been brought to accounts.	Adjustment will be made in the final account of the year 2023.	- Do.
c)	Stamp fee deposits to be remitted to the Department of Inland Revenue, had been overstated by Rs. 691,752 in the accounts.	- Do.	- Do.
d)	A sum of Rs. 55,200 paid in the year 2023 in respect of the year 2022, had not been brought to accounts.	- Do.	-Do.
e)	A sum of Rs. 88,424 paid in the preceding year as allowances, had been brought to accounts as expenses of the year under review.	- Do.	- Do.
f)	The book deficit of Rs. 12,365, had not been accounted for as a balance recoverable.	- Do.	- Do.

1.6.2 Non-reconciled Control Accounts

	Audit Observation	Comment of the Sabha	Recommendation
	The comparison between the balances in the statement of financial position relating to 04 items of accounts and the relevant supporting documents as at 31 December 2022, revealed a difference of Rs. 9,583,483.	The correct balance will be verified and adjustments will be made.	Balances in the financial statements should be comparable with the relevant supporting documents.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Schedules had not been furnished to verify 02 items of fixed assets totalling Rs. Rs. 8,786,337 and 02 items of current assets.	Assets will be verified and the correct balance will be adjusted.	Information necessary for the Audit should be made available.

1.7 Non-compliances

Non-compliances with Laws, Rules, Regulations, and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations, and Management Decisions, are as follows.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Financial Regulation Sixty deposits valued at Rs. 1,035,058 relating to 2015-2020 had not been disposed.	Necessary deposits will be retained and the others will be paid.	Action should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure for the year ended as at 31 December 2022, amounted to Rs. 8,639,872 as compared to the corresponding revenue for the preceding year in excess of the recurrent expenditure amounting to Rs. 6,398,846.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Information on the estimated revenue, billed revenue, collected revenue, and outstanding revenue relating to the year under review and the preceding year, is given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 December
	Rs.	Rs..	Rs..	Rs..	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	4,573,000	4,783,327	4,906,095	3,969,913	7,280,000	4,958,225	4,930,471	4,146,416
Lease Rents	13,410,400	12,733,800	11,956,293	5,893,625	12,847,710	11,435,605	9,078,915	5,177,840
License Fees	505,200	435,548	463,548	-	445,200	385,262	385,512	-
Other Income	<u>6,403,800</u>	<u>9,003,177</u>	<u>8,014,503</u>	<u>1,039,357</u>	<u>5,490,000</u>	<u>7,824,532</u>	<u>6,661,633</u>	<u>508,856</u>
	<u>24,892,400</u>	<u>26,955,852</u>	<u>25,340,439</u>	<u>10,902,895</u>	<u>26,062,910</u>	<u>24,603,624</u>	<u>1,056,531</u>	<u>9,833,112</u>

2.2.2 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
a) A sum of Rs. 10,069,305 remained receivable as at 31 December 2022 from the items of revenue such as, rates, acreage tax, and stall rents,. The said balance comprised a sum of Rs. 5,959,466 continued to exist over 01 – 05 years and a sum of Rs. 2,288,046 older than 05 years.	Action will be taken for recovery of the dues.	Outstanding revenue should be recovered without delay.
b) Key money totalling Rs. 6,418,500 had not been recovered with respect to 06 trade stalls given on lease in the year 2015 and 03 trade stalls given on lease in the year 2021 at the shopping complex in Dehiowita. Annual lease agreements had not been entered into in respect of 26 of 27 trade stalls therein.	Action is being taken to recover the key money and enter into agreements.	Action should be taken to recover the key money and enter into agreements.
c) Fees of Rs. 203,650 relating to 09 permanent billboards and 89 advertising displays, had not been recovered.	A register will be prepared and fees on billboards will be recovered in the year 2023.	Action should be taken to recover fees on billboards.
d) Contrary to Part (iv) (b) of Gazette No. 2251 dated 22 October 2021, action had not been taken to recover an income of Rs. 236,500 from 13 three wheel parks for the years of 2021 and 2022	Such fees on three wheel parks could not be recovered with respect to areas where there were no lands belonging to the Sabha.	Action should be taken in accordance with the Gazette Notification.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Sabha	Recommendation
a)	Due to the decision that 06 fixed deposits valued at Rs. 18,008,107, be invested at a higher rate of interest prior to 08-70 days before reaching maturity, the Sabha had been deprived of an interest income of Rs. 281,098.	Special attention will be brought in that connection in due course.	The receivable income should be recovered.
b)	A debit balance of Rs. 235,897 had been shown in the accounts since 2018 whilst a Value Added Tax amounting to Rs. 2,130,953 had also been shown in the accounts since 2013 as being “transfer of funds between accounts”, but those sums had not been settled.	Action will be taken for settlement of the balances.	The balances should be settled.
c)	A current account with a balance of Rs. 43,088 remained dormant over a period of 20 years.	- Do.	- Do.
d)	Action had not been taken in terms of Section 23 (5) of the Urban Development Authority Act, No. 04 of 1982 against 68 unauthorized constructions identified during 2012-2022. Although demolition orders had been issued for 61 unauthorized constructions, no follow up action had been taken.	As incurring expenses on court cases was unaffordable, notices will be issued to the encroachers.	Action should be taken in accordance with the Act.
e)	The sum of Rs. 8,735,253 remaining due over 01-05 years in industrial debtors’ balance, had not been recovered. The sum of Rs. 9,428,645 continued to exist over one year in the sundry creditors’ balance, had not been settled.	Agreed.	The balances should be settled.
f)	Sixteen Members had not presented their first declaration of assets and liabilities in terms of Declaration of Assets and Liabilities Law No. 01 of 1975 whilst 15 Members had not presented the annual declarations.	Reminders have been sent to those Members.	Action should be taken in accordance with the Law.

- g) Contrary to Paragraph 3.7 of the Circular No. 11/2010 relating to reforms on local authorities, auditorium of the Pradeshiya Sabha, had been provided free of charge for externa parties in 10 instances during 2015-2021. The auditorium was provided for free or charge under approval of the Chairman. Fees are charged in all other instances. The Circular should be followed.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
a) A number of 194 roads belonging to the Pradeshiya Sabha had not been gazetted in non-compliance with Section 24 of the PradeshiyaSabhas Act, No. 15 of 1987. The road inventory had not been updated after the year 2014 as well.	Will be inventoried after being mapped through GIS technology, and gazetted thereafter.	Action should be taken in accordance with the Act.
b) Roads spanning over 21 acres relating to 12 lands for which approval had been given for subdivision during the period 2013-2022, had not been taken over by the Pradeshiya Sabha.	- Do.	- Do.
c) Necessary action had not been taken against 12 houses constructed illegally that had been found during an inspection prior to granting approval for sale after being allotted.	This is a land subdivided sans approval. Owner of the land will be informed to correct the application.	Action should be taken on illegal constructions in accordance with the Act.

3.3 Transaction of Contentious Nature

Audit Observation	Comment of the Sabha	Recommendation
Prices of the institution selected for repairing the engine of a vehicle, had been presented to a Depot Engineer for approval. However, prior to receiving his recommendation, the procurement valued at Rs. 520,000 had been awarded to the selected institution.	Albeit not being recommended by the Depot Engineer, the repair was carried out in accordance with his recommendations, thereby making payments to the institution.	Action should be taken in accordance with the Procurement Guidelines.

3.4 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
a) The compactor trailer valued at Rs. 2,594,999 received as a donation	Due to the compactors inability to collect waste after	Assets should not be kept unused.

in the year 2015, remained idle since the date of receipt. being segregated and difficulty in driving the compactor to solid waste center, the machine is not used.

- b) Contrary to Paragraph 2.1 of the Assets Management Circular No. 02/2017 dated 21 December 2017, an ambulance and a Bob Cat machine had not been taken over. Action is being taken for acquisition of those machines. Action should be taken in accordance with the Circular.
- c) The area in extent of 07 acres allocated from the AbbasiWatta land for common use, had not been taken over by the Sabha. Action is being taken for acquisition of that plot. The acquisition should be made.

3.5 Deficiencies in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
Water in the well dug in the first stage of the project to supply water for a village, was undrinkable. As such, the expenditure of Rs. 909,701 incurred on the well had become fruitless. The rest of the activities of the project had not been done even up to September 2022.	According to instructions of an engineer, a sand filter has been fixed around the well, and water samples have been sent for testing. The agreement has been terminated under consent of both parties.	Sufficient utilization should be ensured in line with the expense incurred.

3.6 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
a) Nine other employees had been deployed as drives of the Sabha.	Although requests had been made for approval on the post of driver, no approvals have been received.	Vacancies should be filled as per requirements.
b) Two laborers had been deployed for two vacancies in the post of revenue inspector since 2020.	Letters have been sent requesting to fill vacancies in the post of revenue inspector.	- Do.
c) As the staff could not be increased, 25 persons had been recruited during 2014-2022 on service agreements.	As no approval had been received to approve the new posts, they had been recruited owing to service requirements.	- Do.