

Divulapitiya Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Divulapitiya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022, 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, because of the significance of the matters described in Paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Divulapitiya Pradeshiya Sabha as at 31 December 2022, 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 Adverse Opinion

I express Adverse 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

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)

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

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

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Income from Government Transfers for non-recurring expenditure had been understated in the accounts by Rs.19,163,956 for the year 2021 and Rs.31,783,132 for the year 2022.	Will be corrected when preparing the financial statements for the year ended 31 December 2023.	Should be correctly accounted.
(b) Depreciation value had been understated in the accounts by Rs.19,502,929, in the year 2021 and Rs.32,767,990 in the year 2022.	-do-	-do-
(c) The Value of Library Books amounting to Rs.15,436,837 had been accounted as Stocks in Current Assets instead of Property, Plant and Equipment. Further, Depreciation value relating to Library Books, had not been accounted.	-do-	-do-
(d) 4 Nos. Constructions totalling to a sum of Rs.1,882,816, carried out on lands not owned by the Sabha, had been accounted as Property, Plant and Equipment in 2021.	-do-	-do-

1.6.2 Unreconciled Control Accounts or Reports

Audit Observation	Comments of the Sabha	Recommendation
Though, the total balance pertaining to 4 Account Headings as per the financial statements was Rs.57,836,945, the total as per schedules was Rs.52,456,132, thereby, a difference of Rs.5,380,813 was observed.	It is being corrected.	Differences should be identified and corrected.

1.6.3 Lack of Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
08 Account Balances amounting to Rs.30,148,923 as at 31 December of the year under review, could not be satisfactorily examined due to non-submission of Primary Supporting Schedules relating to them.	Will be corrected in the accounts for 31.12.2023.	Schedules should be prepared.

1.7 Non-compliance

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Section 20 of the Rating and Valuation Act No. 30 of 1946	Rates are charged based on the assessment of the year 2004 at 02 sub offices and based on the year 1994 at 01 sub office.	About 18,000 properties had been handed over to Valuation Department.	Assessments to be done and to be charged according to new rates.
(b) Order No. 83(ii) imposed by the Extra Ordinary Gazette No. 2155/8 and dated 24 December 2019, relating to Accounting Activities with regard to Financial Administration of Western Province Pradeshiya Sabhas.	Separate Advances Account had not been maintained for staff loans payable by Officers and Staff of the Pradeshiya Sabha.	An Account has been maintained since the year 2023.	Actions should be taken in par with Financial Rules.
(c) Financial Regulation (i) 371	Rs.2,793,113 given as Advances from 2006 to 2020, had not been settled as of 31 March 2023.	Chargeable Advances will be recovered.	Actions should be taken in par with Financial Regulations.

(ii) 571 Rs.334,894, exceeding 02 years had not been regulated. Actions will be taken to take in to the Revenue -do-

(d) Circulars

Circular LGD/13/2016, dated 09 November 2016 of Government Department (Western Province)	No. Local	Though, monthly Rent should be revised every 03 years from the agreement date, Rent had been charged for 20 shops, on the year 2014 assessment.	Handed over to Valuation Department for assessment revisions.	Assessment should be made and Rent should be charged according to new rates.
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2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.230,033,227 as compared with the revenue over expenditure amounted to Rs.48,140,427 in the preceding year.

2.2 Revenue Administration

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

As per the information presented by the Secretary, particulars relating to the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Income Source	2022				2021			
	Estimated Income	Billed Income	Collected Income	Arrears Income as at 31st December	Estimated Income	Billed Income	Collected Income	Arrears Income as at 31st December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates & Taxes	14,269,791	15,636,473	15,268,512	457,961	15,367,940	15,237,903	13,477,792	2,625,303
(ii) Rent	7,218,558	7,126,474	7,003,131	59,448	7,331,320	4,304,767	5,668,293	1,742,647
(iii) License Fees	1,804,000	1,977,584	1,977,584		1,801,686	1,297,068	2,071,574	
(iv) Other Income	9,992,613	13,614,636	13,614,636		65,778,930		88,997,309	
	<u>33,284,962</u>	<u>38,355,167</u>	<u>37,863,863</u>	<u>517,409</u>	<u>90,279,876</u>	<u>20,839,738</u>	<u>110,214,968</u>	<u>4,367,950</u>

3. Operating Review

3.1 Discharging the Duties Assigned by the Act

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.

Audit Observation	Comments of the Sabha	Recommendation
Licences had not been obtained as of 31 March 2023, for 02 Nos. Crematoriums operated by Divulapitiya Pradeshiya Sabha.	Actions have been taken by now, to obtain licences for Crematoriums.	Licences should be obtained.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Even though, as per the Land Verification in 2022, 16,260 have been identified as Rates assessable properties, only 2,774 properties had been charged for Rates.	Assessments have been commenced.	Assessment should be obtained and Rates to be charged according to the new rates.
(b) There had been an Other Debtor Balance of Rs.11,684,854 as at 31 December 2022.	Actions will be taken to collect amounts not collected.	Debtor balances should be collected.
(c) There had been an Expense Creditor Balance of Rs.33,148,658 as at 31 December 2022.	Actions will be taken to pay off amounts.	Creditor balances should be paid.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) 09 Properties valued at Rs.6,569,000 had not been identified in the Physical Verification of Goods in 2022.	Handed over to Pradeshiya Sabha by Certificates.	Lands, accounted should be verified.
(b) Unauthorised constructions were carried out on 02 Lands owned by Sabha.	Actions will be taken to submit a report after inspection.	Properties should be accounted at proper valuations and unauthorised constructions should be removed.

(c) It was observed that the fence boundaries of the Properties, owned by the Sabha, were not fixed, the Cemeteries were overgrown, there were no name boards and many wells were not in use and were crumbling and overgrown.	Fixing of Name Boards and Fences of the properties owned by the Sabha, have been commenced. Cemeteries are being cleaned.	Properties should be maintained timely.
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3.4 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
Staff Loans amounting to Rs.391,710, of 19 nos. officers who had transferred, died, retired, vacated office, had not been recovered as of 31 March 2023	Actions are being taken to recover.	Staff Loan should be recovered.