

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Divulapitiya Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of assets and liabilities as at 31 December 2023 and statement of comprehensive income, statement of changes in equity/net assets, cash flow statement for the year then ended and notes to the financial statements, including material accounting policy 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 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 2023, and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.

**1.2 Basis for qualified Opinion**

I expressed qualified opinion 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 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 the Sri Lanka Public Sector Accounting Standards for Local Authorities and for such internal control as management determines 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 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 pradeshiya 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 judgement 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 the Company's 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 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 discussions issued by the governing body of the pradeshiya sabha
- Whether the pradeshiya Sabha 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 the other legal requirements

The special provisions had been inserted in the National Audit Act No.19 of 2018 in relation to the under-mentioned requirements.

- The financial statements of the pradeshiya sabha are consistent with the preceding year as per the requirement of the section 6(1)(d)(iii) of the National Audit act No. 19 of 2018 .
- The recommendations made by me in the preceding year as per the requirement indicated in the section 6(1)(d)(iv) of the National Audit act No. 19 of 2018 had been included in the financial statements forwarded.

## 1.6. Audit Observations on preparation of the Financial Statements

### 1.6.1. Accounting Deficiencies

Audit Observation	Comments of sabha	Recommendation
(a) Even though the library books donations received should be credited to the capital grant account, an amount of Rs.1,196,293 had been credited to the cumulative fund and an amount of Rs.214,895 had been credited to donation account also.	It will be rectified from the final account on 31 December 2024.	It should be accurately accounted.
(b) 05 lands in extent of 260.3 perches and 04 lands on which the extent had not been identified had not been accounted after valuation.	It will be included into the financial statements prepared on 31 December 2024.	It should be accounted after valuation.

## 1.6.2. Lack of Documentary Evidence for Audit

<b>Audit Observation</b>	<b>Comments of the sabha</b>	<b>Recommendation</b>
It couldn't be satisfactorily vouched 07 subjects aggregate of Rs.25,840,261 owing to non-submission of necessary information.	The future action on these balances is being obtained from Local Government Assistant Commissioner.	The documents should be prepared.

## 1.7. Non-compliances

### 1.7.1. Non-compliance with rules, laws regulations and management decisions

<b>Reference to laws, rules, regulations and management decisions</b>	<b>Non-compliance</b>	<b>Comments of the sabha</b>	<b>Recommendation</b>
(a) Section 20 of Tax and Assessment Ordinance No.30 of 1946	The Assessment Tax had been charged based on the valuations of 1994 and 2004.	18,000 properties had been handed over to Department of Valuation for amendment of the valuation.	The Assessment Tax should be charged as per new rates having carried out valuations.
(b) Regulation No.83(ii) on Accounting related to Western Province Pradeshiya Sabha Financial Administration	An employee advance account had not been maintained.	The action will be taken to commence the advance account on 01 January 2025.	The action should be taken as per regulations.
(c) Financial Regulations of Democratic Socialist Republic of Sri Lanka			
(i) F.R. 371 (a)	An advance of Rs.2,793,113 provided from 2006 to 2020 had not been recovered.	The preliminary inquiry is being performed by Local Government Assistant Commissioner.	The action should be taken as per Financial Regulations.
(ii) F.R. 571	The deposit of Rs.1,599,767 exceeding 02 years had not been settled.	The action will be taken to include into the income.	The action should be taken as per Financial Regulation.

## 2. Financial Review

### 2.1. Financial Results

As per the financial statements submitted, the income exceeding the expenditure of sabha was Rs.77,987,661 for the year ended 31 December 2023 and correspondingly, the income exceeding the expenditure was Rs.230,033,227 in the preceding year.

### 2.2. Income Administration

#### 2.2.1. Estimated Income, Billed Income, Collected Income and Outstanding Income

In accordance with the information forwarded by the Secretary, the information on estimated income, billed income, collected income and outstanding income is as follows in relation to the year under review and the preceding year.

Income source	2023				2022			
	Estimated Income	Billed Income ₹	collected Income ₹	Total Outstanding as at 31 December	Estimated Income	Billed Income	Collected Income	Total Outstanding as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Assessment Tax and Other tax	15,000,000	14,472,663	13,446,212	402,801	14,269,791	15,636,473	15,268,512	457,961
(ii) Rents	7,269,375	8,079,031	7,955,471	111,850	7,218,558	7,126,474	7,003,131	59,448
(iii) License Fees	2,272,000	2,069,946	2,069,946	-	1,804,000	1,977,584	1,977,584	-
(iv) Other Income	24,857,315	22,889,615	22,889,615	-	9,992,613	13,614,636	13,614,636	-
	49,398,690	47,511,255	46,361,244	514,651	33,284,962	38,355,167	37,863,863	517,409

### 3. Operating Review

#### 3.1. Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of sabha</b>	<b>Recommendation</b>
(a) The Assessment Tax had been charged from only 2,774 properties out of 16,260 identified as on which the Assessment Tax should be charged.	The action is being taken to charge the tax from 13,587 properties.	The Assessment Tax should be charged having obtained the valuation.
(b) No action had been taken to recover other debtors 'balance of Rs.1,717,410 and settle expense creditors' balance of Rs.7,741,421 up to 31 December 2023.	The action will be taken in the future.	The debtors' balance should be recovered and the creditors' balance should be settled.

#### 3.2. Idle and Underutilized Property, Plants and Equipment

<b>Audit Observation</b>	<b>Comments of sabha</b>	<b>Recommendation</b>
The foundation erected for a community hall revalued to Rs.201,000 and accounted in 2020 by incurring an amount of Rs.55,000 from sabha funds before 2017 had been abandoned with weeds and the amount incurred had been idle.	The action will be taken as per Rules 13 and 14 on Accounting related to Financial Administration.	It should be prepared enabling to utilize the assets.

#### 3.3. Assets Management

<b>Audit Observation</b>	<b>Comments of the sabha</b>	<b>Recommendation</b>
(a) 03 machineries worth of Rs.25,698,666 had not been taken over.	The action is being taken to take over.	The action should be taken to take over.
(b) It had been observed that the land reserved for the common amenities named Dagonna Dostharawatta in extent of about 60 perches had not a deed for confirming the title of the land and there was no access road to the land and it had encroached in wilderness. It was observed that hens and pigs are reared in the land by neighbors.	The information is being obtained to confirm the title of the land.	After confirming the ownership of the lands belonging to sabha, those should be properly maintained.
(c) The fixed assets register had not been updated.	The action will be taken to update the register.	The fixed assets register should be updated.

### 3.4. Human Resource Management

<b>Audit Observation</b>	<b>Comments of the sabha</b>	<b>Recommendation</b>
An employee loan balance of Rs.506,111 from 18 officers who had transferred deceased, retired and vacated the post of sabha had not been recovered up to 31 December in the year under review.	The action is being taken to recover it.	The action should be taken to recover.