

### **1. Financial Statements**

#### **1.1 Adverse opinion**

The audit of the financial statements of the Divulapitiya Pradeshiya Sabha for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, Statement of Comprehensive Income, Statement of Changes in Net Assets/Equity, 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and Sub-Section 10(1) 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 2024 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **1.2 Basis for Adverse Opinion**

I expressed adverse opinion regarding the financial statements 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 adverse 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 skepticism 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 includes 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

	Non Compliance with the reference to particular Standard	Comments of the Sabha	Recommendation
(a)	In preparing the cash flow statement, in accordance with paragraph no. 3.28 of the Standard and EG 6.2 of the Explanations and Guidance in Appendix 2 thereof, the finance cost of Rs. 226,922, which was adjusted as an expense in the comprehensive income statement for the year under review, had not been readjusted to the surplus and the value of Rs. 533,576, which was adjusted to the surplus, was not disclosed. Furthermore, out of the interest income of Rs. 12,738,051, which was adjusted to comprehensive income, only Rs. 11,692,489 had been readjusted to the surplus.	Financial cost of Rs. 226,922 has been adjusted as expenses in the comprehensive income statement and the value of Rs. 533,576 adjusted for surplus Adjustments made to Rs. 74,038,112 credited to the accumulated Fund Comprehensive income includes interest income of Rs. 12,738,051.	Financial statements should be prepared in accordance with the standard.

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| (b) | In calculating the cash flow from financing activities in accordance with Chapter 3.30 of the Standard and EG 6.4 of the Explanations and Guidelines in Appendix 2 thereof, the value of capital grants received in cash during the year under review should have been Rs. 90,819,390, although the value receivable was Rs. 121,160,901 including Rs. 30,341,511 was stated. Capital grants received in the year under review amounting to Rs. 2,998,626 and interest paid on loans amounting to Rs. 226,922 in respect of the year 2023 had not been included under financing activities. | That will be corrected in 2025. | Financial statements should be prepared in accordance with the standard. |
| (c) | As per the Circular No. LGD/09/2019 (1) dated 27th August 2020 of the Commissioner of Local Government, LG forms had not been used for recording roads, culverts and bridges and their installations.   | That will be corrected in 2025. | Financial statements should be prepared in accordance with the standard. |

## 1.6.2 Accounting Deficiencies

Audit Observation		Comments of the Recommendation Sabha	
(a)	The fixed deposit interest received during the year under review for the year 2023 was Rs. 1,092,500 but was adjusted to the fixed deposit account and interest receivable account by Rs. 96,816 more, while the fixed deposit interest receivable for the year under review was Rs. 2,072,692 but was understated as Rs. 1,941,181 by Rs. 131,511. Similarly, the fixed deposit interest income of Rs. 11,917,815 for the year under review was adjusted to Rs. 11,692,489 in the comprehensive income statement, resulting in a further understatement of Rs. 225,326.	Adjustments will be made in 2025.	Interest income must be identified and accounted for correctly.
(b)	While correcting the value of library book donations of Rs. 1,196,293 credited to the accumulated Fund as indicated in the Auditor General's summary Report for the year 2023, the Capital Grant Account should have been credited, but it had been credited to another donation account.	Adjustments will be made in 2025.	Accounts should be prepared correctly.

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| (c) | During the year under review, books worth Rs. 275,563 received from external parties were shown as other donations, although they should have been accounted for as capital grants.  | Adjustments will be made in 2025. | Accounts should be prepared correctly. |
| (d) | In the year 2022, the works worth Rs. 1,498,198 paid for the construction of a building for waste segregation at the Kotadeniya fair premises and Rs. 3,564,124 paid for the modernisation of the Kotadeniya weekly fair had not been capitalized under buildings in the accounts of the year under review, even though the works had been completed.  | That will be corrected in 2025.   | Accounts should be prepared correctly. |
| (e) | Under the 2024 Decentralized Budget Program, the receipt of Rs. 171,631 for the purchase and installation of solar panel kits was transferred to capital grants instead of being shown as transfers from the government for recurrent expenditure in the Comprehensive Income Statement, resulting in capital grants being overstated and revenue being understated.   | That will be corrected in 2025.   | Accounts should be prepared correctly. |
| (f) | The income for the year under review was understated by Rs. 230,000 as Rs. 230,000 was credited to the Capital Grant Account instead of being credited to the Grant Account received from the Government for Recurring Expenditures under the Western Province Development Plan 2024 for the installation of a solar panel street light system.  | That will be corrected in 2025.   | Accounts should be prepared correctly. |
| (g) | The total value of the project to provide energy efficient street lights, which was Rs. 8,113,680, was not shown under the recurrent expenditure of the year under review and Rs. 7,302,312 received in the year under review, which should have been shown as grants received from the government for recurrent expenditure, had been accounted for as general deposit. Also, the 10 percent retention amount, which was Rs. 811,368, had not been accounted for as receivable. Therefore, the income of the year under review was Rs. 8,113,680 and the receivable value was understated by Rs. 811,368. | That will be corrected in 2025.   | Accounts should be prepared correctly. |

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| (h) | The amount of Rs. 17,496,450 that was to be received under Phase 02 of the above project and the value of street light items received equal to that value had not been accounted for as creditors. The remaining street lighting items in the warehouse amounting to Rs. 10,364,897 had not been accounted for as closing stock, and the value of the goods issued and the work completed amounting to Rs. 7,131,553 had not been accounted for as recurring expenses and grants received from the government for recurring expenses. | That will be corrected in 2025. | Accounts should be prepared correctly. |
| (i) | Out of Rs. 3,700,000 stated under buildings under construction in the year under review, Rs. 1,715,000 was not accounted for as building repair expenses, resulting in understated of expenses and overstated of non-current assets in the year under review.   | That will be corrected in 2025. | Accounts should be prepared correctly. |
| (j) | The income for the year under review was understated by the amount due to the fact that the Ayurvedic medicine donation of Rs. 300,000 was not included in comprehensive income as a grant received for recurring expenses but was included in the statement of assets and liabilities as other donations.  | That will be corrected in 2025. | Accounts should be prepared correctly. |
| (k) | The error of accounting as recurring income while capitalizing the value of a public plot of land of Rs. 212,700,000 received by the Sabha in the year 2022 was corrected in the year 2023, although capital grants should have been credited, but were credited to other donations account.  | That will be corrected in 2025. | Accounts should be prepared correctly. |
| (l) | The income for the year under review was understated by the fact that the total value of Rs. 12,141,044 of 19 recurring projects completed with grants received during the year under review was accounted as capital grants instead of being accounted as grants received for recurring expenses.  | That will be corrected in 2025. | Accounts should be prepared correctly. |

(m)	The audit fees paid during the year under review for the year 2023 were Rs. 305,941 and the amount allocated for the year under review was Rs. 394,059, totaling Rs. 700,000, so the expenditure for the year under review was overstated by Rs. 365,941.	That will be corrected in 2025.	Accounts should be prepared correctly.
(n)	Since Rs. 2,616,552 incurred for the repair and maintenance of 03 buildings belonging to the Sabha had been capitalized as buildings, the expenses during the year had been understated and non-current assets had been overstated by that value.	That will be corrected in 2025.	Accounts should be prepared correctly.
(o)	Although the amount of depreciation recognized as expenditure during the year should have been recognized as income in the year under review in accordance with the annual depreciation percentage in relation to non-current assets included in the opening balance of capital grants, the amount spent from the capital grants received in the year under review, Rs. 30,959,165, had been recognized as income under the grants received from the government for non-recurring expenses of the year.	That will be corrected in 2025.	Accounts should be prepared correctly.

### 1.6.3 Unreconciled Control Accounts or Records

#### Audit Observation

There was a difference of Rs. 23,480,473 between the balances of 08 accounts included in the financial statements of the year under review and the totals in the relevant schedules.

#### Comments of the Recommendation Sabha

That will be corrected in the 2025 financial statements. The reasons for the difference must be found and corrected.

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions as follows.

	Reference to Laws, Rules Regulations	Non-compliance	Comments of the Sabha	Recommendation
(a)	Rules on accounting matters relating to the financial administration of the Pradeshiya Sabha			
(i)	Rules 338, 344 and 397	The Sabha had not acted in accordance with the rules when leasing 17 properties that are subject to annual leases.	The query is accepted.	The rules referred to must be followed.
(ii)	Rule 433	Although a Sabha that has not identified a class or classes of property, plant and equipment should identify the market value of the property, plant and equipment within the relevant class or classes at a subsequent reporting date and recognize that value as the carrying amount, the basis used by the Revaluation Committee to revalue land and buildings was not disclosed to the audit.	The query is accepted.	Must act according to the rules referred.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571	Overdue deposits of Rs. 3,859,426, which were over two years, had not been settled.	The deposits will be taken as income.	Financial regulations must be followed.
(c)	Circular No. 1980/46 dated 31 December 1980, Circular No. LGD/13/2016 dated 09 November 2016 and Circular No. LGD/13/2016(i) dated	Although it is stated that after the end of the contractual period, the lease rent should be revised and a new contract should be entered into, and the lease period should be	Accepted.	Action should be taken according to the circular.



03 December 2020 of the Department of Local Government determined and entered into, no steps had been taken to identify the tenants of the sheltered shops and enter into contracts, nor had any steps been taken to identify whether the shops were being used by the sub-lessees, even though more than 15 years had passed and the lessees had changed.

- (d) Local Government Circular No. LGD/01/2024 dated 06 December 2024 Annual credit limits had not been approved for staff loans as per the templates of the Government Officials' Advance "B" Account. Accepted. Action should be taken according to the circular.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 5,803,231 as compared with the excess of revenue over expenditure amounted to Rs. 77,987,661 in the preceding year.

### 2.2 Revenue Administration

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

According to the information presented by the Secretary, the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

Source of Revenue	2024				2023			
	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December
.....	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'
Rates and Taxes	14,040	15,214	15,025	189	15,000	14,473	13,446	403
Rent	8,822	10,859	10,753	105	7,269	8,079	7,955	111
License fees	,2044	2,078	2,078	-	,2272	2,069	2,069	-
Other Revenue	188,490	122,616	122,616	-	24,857	22,890	22,890	-
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	213,396	150,767	150,472	294	49,398	47,511	46,360	514
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### 3. Operational Review

#### 3.1 Performing of Functions Enacted 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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
07 public complaints received in the year 2023 and 08 public complaints received in the year under review had not been resolved by 30th of April 2025.	Those reminders have been sent.	Public complaints should be resolved as soon as possible.

#### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The value of two stock items totaling Rs. 220,120,170, which had been identified as unreconcil, had not been checked and action had not been taken to correct them.	The difference will be identified and corrected.	The reasons for the difference must be found and corrected.
(b) The balance of Rs. 3,074,278, consisting of Rs. 593,867 in fuel and Rs. 2,480,411 in other advances since to year of 2007, had not been settled by the last day of the year under review.	The Local Government Commissioner will act as instructed.	Advance balances must be settled.
(c) Journal vouchers or detailed schedules relating to 06 items, totaling Rs. 75,601,641, which were included under fixed asset additions during the year under review, had not been submitted for audit.	That the Local Government Commissioner will act as instructed.	Arrangements should be made to provide evidence for the audit.
(d) Detailed schedules relating to capital expenditure grants amounting to Rs. 356,361,041 as at the beginning of the year under review had not been prepared and submitted for audit.	It was the opening balance of the capital grant expenditure.	Arrangements should be made to provide evidence for the audit.

(e)	Management failed to submit to the audit the basis used to treat the total expenditure of Rs. 37,019,001 as recurring expenditure relating to two projects namely, procurement for road development projects amounting to Rs. 17,202,703 and road culvert and bridge repair and maintenance amounting to Rs. 19,816,298.	That the Local Government Commissioner will act as instructed.	Arrangements should be made to provide evidence for the audit.
(f)	No action had been taken by the end of the year under review to confirm ownership of 281 properties including lands, public wells and public cemeteries with a sum of value of Rs. 493,699,407.	That the Local Government Commissioner will act as instructed.	Ownership of property must be verified.
(g)	In the schedules presented with the financial statements, the information of 99 building items, 41 fixtures items, 43 computer items, 56 office equipment items and 25 furniture and equipment items had not been updated in the fixed asset registers, and fixed asset registers had not been maintained in relation to roads, bridges and culverts.	Accepted.	Fixed asset registers must be updated and maintained.
(h)	As per 'd' of Gazette Notification No. 2264/18 dated 27th January 2022, an environmental license survey had not been conducted for the year 2024.	Accepted.	An environmental license survey should be conducted annually.
(i)	In the general deposit register, overpayments totaling Rs. 131,572 from 19 officers older than 14 years had not been identified and action had not been taken to settle them.	That will work to resolve the matter quickly.	Action should be taken to verify and resolve the identity.
(j)	In 2012, NECFA computer software was purchased for Rs. 495,000 and was used only for assessment income, but since other income information was not included in the computer software, the intended objectives of acquiring the software were not fulfilled. Furthermore, the Sabha had not entered into an agreement with the institution that provided the computer software, determining the service fees to be paid.	That will work to resolve the matter quickly.	Action should be taken to achieve the expected objectives by acquiring the software.
(k)	A survey of billboards in the Sabha area of authority for the year 2024 had not been conducted, and although it was revealed that the billboard fee varies according to the Gazette, the audit could not verify the accuracy of the calculation of billboard	Accepted.	An annual survey of billboards should be conducted and the type of billboards should be

fees as the relevant billboard type was not specified in the billboard application form or its attachments requested by the Sabha.

mentioned in the applications.

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| (l) | The Sabha had not settled industrial creditor balances totaling Rs. 168,587, which amounted to Rs. 26,800, Rs. 106,787 and Rs. 35,000 for the years 2020, 2021 and 2022 respectively. | Accepted. | Action should be taken to settle outstanding creditor balances. |
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### 3.3 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Out of the 17 butcher shops and fish shops leased for the year 2024, 15 shops were given to the old lessees without submitting applications during the procurement, charging a certain percentage of the previous tender amount and charging rent without entering into an agreement. Although according to condition number 10 of the procurement notice, the tenderer should provide a property guarantee equivalent to 75 percent of the amount requested at the time of entering into an agreement, it was not revealed that such a property guarantee was obtained for 02 butcher shops for which agreements were signed and tenders were awarded.	Accepted.	The lease of property should be carried out according to the procurement process.
(b) Although the Divulapitiya Divisional Secretariat had handed over the sales stalls of the Walpita Thuru Sevana Sales Promotion Center to the Sabha by letter dated 18 <sup>th</sup> of February 2008, the Sabha had delayed entering into agreements with the lessees for over 15 years until 2024 and had collected revenue from the parties who had provided the above-mentioned stall rent without any legal obligation with the Sabha.	Accepted.	When paying property taxes, income generation should be done through a contractual obligation.

### 3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
The assets of the Sabha, namely the Ran Phaladagama Community Hall and Multipurpose Building owned by the Dunagaha Sub-district, the Dikwelaaya Community Hall and Library Building in Horagasmulla, the	That the necessary work is being done.	The assets of the Sabha should be utilized to the maximum effect.

Sisila Sevana Community Hall and Pre-School in Maradagahamula, the Divulapitiya Toilet, the Maradagahamula Garbage Collection Point, the Meat Shop on the Galkanda Sathipola Ground, the Seewanwatte Walahena Community Hall and the Rendapola owned by the Kotadeniyawa (Kaluaggala) Sub-office, the Alwis Silva Multipurpose Building and the Badalgama weekly fair Building and Fish Market owned by the Badalgama Sub-office, the shops in the Badampella and Badalgama Public Market Complex, and the North Kaluwarippuwa Multipurpose Building, were not utilized and were underutilized.

### 3.5 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) 97 lands and buildings with a value of Rs. 144,755,218 recorded in the financial statements had not been recorded in the property, plant and equipment register.	Accepted.	The property plant equipment register must be updated.
(b) Although the owner of the land near the Katuwellegama Junction drinking well, owned by the Dunagaha Subdistrict Office, had illegally taken possession of it and sold it to another party, and had already built several shops on the site, the Sabha had not taken any action in this regard.	That will check and take necessary action.	Action should be taken to protect the property owned by the Sabha.
(c) During the physical inspection, it was observed that the Galabadawatte/Godigamuwa land, which was about 50 perches in size, was overgrown with weeds, with no clearly identifiable boundaries, and without a Sabha nameplate. Large trees on the land had been removed without permission by outsiders to pave a road.	That the necessary work is being done.	Action should be taken to protect the property owned by the Sabha.

### 3.6 Human Resources Management

Audit Observation	Comments of Recommendation the Sabha
(a) It was observed during the audit that there were 21 vacancies in the staff in relation to 10 posts, and that the vacancies in 3 of the 4 approved staff in the Revenue Inspector post directly affected the revenue earning function of the Sabha, and that the vacancies in all the approved posts of Works/Field Inspector and Electrician directly affected the operational process of the Sabha.	Officers have applied for the vacancies. Efforts should be made to manage the staff in a manner that does not affect the efficiency of the duties of the Sabha.
(b) As at 30 <sup>th</sup> of April 2025, the total staff security deposits of 08 officers who were not engaged in the service of the Sabha totaling Rs. 41,300 had not been settled to the relevant officers, and the Sabha had not taken steps to release the security deposits of Rs. 6,628 held in two accounts of a deceased officer to one of the heirs of that officer.	Working to resolve the matter. Action should be taken to settle staff security deposits.

## 4. Accountability and Good Governance

### 4.1 Internal Audit

Audit Observation	Comments of Recommendation the Sabha
According to paragraph 01 of the Management Audit Circular No. DMA 2019/01 dated 12 January 2019, the independence of internal audit has been determined by Section 40(3) of the National Audit Act and Section 134(1) of the Financial Regulations Code and the auditors should have a formal functional presence necessary to provide impartial and neutral judgments without internal audit influences or conditions. However, the appointment of internal audit officers to the Technical Evaluation Committees for the purchase of butcher shop and fish shop leases for the year 2024 and the Fixed Assets Revaluation Committee by the Sabha had hampered the above impartial reporting and independence.	That will be done correctly in the future. Actions must be taken in accordance with the Audit Act, Financial Regulations and Circulars.