

Devinuwara Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Devinuwara Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position, as at 31 December 2022 Statement of Financial Performance, Statement of Changing 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 report 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 accompanying financial statements give a true and fair view of the financial position of the Devinuwara Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) 07 buildings owned by the Sabha with a value of Rs.61,870,000 had not been accounted under land and buildings at the end of the year under review.	It has been corrected.	Should be accounted correctly.
(b) The interest receivable for 03 fixed deposits with a value of Rs.25,000,000 maintained by the Sabha had been understated by Rs.672,699.	It has been corrected.	Should be accounted correctly.
(c) The value of General stock had been overstated by Rs.557,181 at the end of the year under review.	It has been corrected.	Should be accounted correctly.
(d) The construction creditors had over stated by Rs. 555,507 at the end of the year under review, for the expenses to be paid in 06 different construction work implemented by the Sabha last year.	It has been corrected.	Should be accounted correctly.
(e) The tractor trailer and Kubota hand tractor value Rs.476,499 which were disposed in the previous year had been accounted under motor cars and carts even at the end of the year under review.	It has been corrected.	Should be accounted correctly.
(f) 1% fee amounting to Rs.1,258,930 due from 02 land auctions conducted in the Sabha area during the year under review, had not been accounted as revenue receivable.	It has been corrected.	Should be accounted correctly.
(g) The stamp duty receivables amounting to Rs.274,000 for the previous year had not been accounted as income receivable at the end of the year under review.	It has been corrected.	Should be accounted correctly.

1.6.2 Lack of Documentary evidence for Audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Due to non-submission of updated fixed asset register, title deeds etc., 04 accounting items totaling Rs.122,082,889. could not be satisfactorily vouched during the audit.	The action will be taken regarding this in the future.	Evidence should be submitted confirming the account balances shown in the Financial Statements.

2. Financial Review

2.1 Financial Result

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. 20,240,880 as compared with excess of revenue over recurrent expenditure amounted to Rs. 19,207,364 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 chairman, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	2,923,135	1,924,480	1,380,399	5,946,297	3,037,238	3,351,577	3,123,716	5,402,216
(ii) Rent	26,036,460	4,388,695	3,892,244	14,640,140	26,322,260	5,388,161	3,030,691	14,143,689
(iii) License Fees	5,075,500	810,040	884,225	156,790	5,410,350	857,453	683,228	230,975
(iv) Other revenue	7,314,800	1,338,664	917,574	516,556	7,401,000	5,049,117	4,953,651	95,466
	41,349,895	8,461,879	7,074,442	21,259,783	42,170,848	14,646,308	11,791,286	19,872,346

2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the sabha.

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Balance of the Arrears of Assessment Tax as at the beginning of the year under review amounted to Rs. 5,196,765 and the Balance as at the end of the year amounted to Rs. 5,866,493.	An arrears collection program and a warrant preparation program for delinquent properties are to be implemented by conducting mobile services and campaigns.	Arrears of income should be collected as soon as possible.

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| (b) | According to Section 134 of the Pradeshiya Sabha Act No. 15 of 1987, 16 Grama Niladari division have been identified as developed areas in the Sabha area and published in the Gazette No. 1980 and dated 12 August 2016, however the property had not been assessed and collect the tax as at the audit date of 30 January 2023. | Written requests have been submitted to the Assessment Department. | Action should be taken according to the Act. |
| (c) | According to Section 20 of the Taxation and Valuation Act No. 30 of 1946, assessed property should be assessed every 05 years and taxed on the annual value, however assessment tax was being levied based on the assessment of assessed property in the year 2011 even during the year under review. | The written requests have been submitted to the Assessment Department. | Action should be taken according to the Act. |
| (d) | The Sabha had leased the existing shops, and 84 lessees had to collect shop rents of Rs. 13,810,794. | The action will be taken in accordance with the Finance Committee decision in the future. | Arrears of income should be collected as soon as possible |
| (e) | The lease agreements related to 73 shops in 04 malls owned by the Sabha had not been updated as at 2 February 2023. | That the lessees has been notified in writing to enter into the agreement. | Agreement should be updated. |
| (f) | Court fines and Stamp duty to be received by the Chief Secretary of the Provincial Council amounted to Rs. 1,160,790 and Rs. 68,528,018 as at 31 December of the year under review. | Had not been commented | Arrears of income should be collected as soon as possible |
| (g) | 05 hotels and restaurants registered with the Sri Lanka Tourist Board in Devinuwara Pradeshiya Sabha area did not charge fees as per section 149 of the Pradeshiya Sabha Act No. 15 of 1987. | The action will be taken to charge 1% from these hotels in the year 2023. | According to the Act, by-laws should be enacted and fees should be charged. |

3. Operational Review

3.1 Performance of functions 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 -----	Comment of the Sabha -----	Recommendation -----
(a) The data on the amount of garbage collected within the council area using biodegradable waste to produce compost had not been maintained and had not recycled non-biodegradable waste, A permanent and regular waste management project was not implemented by the council and instead the decomposing waste collected daily was being dumped in a private land called Molawatta, Wellamadama.	To be plan to start a waste management project after acquiring suitable land.	A permanent and formal Waste Management project should be implemented.
(b) As the garbage brought by the community on both sides of the road mixed with decomposable garbage and non-decomposable garbage is dumped on the private land located in a populated area called Wellamadama Molawatta close to the beach, polythene mixed garbage was also disposed of in the garbage yard and covered with soil.	Aware the people and minimize the dumping of garbage on this land.	A permanent and formal Waste Management project should be implemented

3.2 Management Inefficiencies

Audit Observation -----	Comment of the sabha -----	Recommendation -----
(a) Rs.692,028 had been paid for the repair of the backhoe machine owned by the Sabha to a certain agency during the year under review, due to the delay of repair work by 04 months, to get another backhoe machines for rent to carry out the daily work of the Sabha and Rs. 617,680 had to be spent.	The payment had been made on the recommendations of the Southern Province Mechanical Engineer.	Action should be taken according to the Regulations.
(b) The process of selling temporary stalls and ground stakes in the annual Esala fair was very informal and without transparency, due to irregularities in the sale of stalls and ground stakes for many years, an amount of Rs.981,430 was not credited to the council fund.	The action will be done in the future according to the recommendations given by the Local Government Department	Action should be taken according to the regulations.
(c) A substitute field worker was recruited on 13 October 2014 and paid Rs.1,244,917 from the council fund from the year 2020 to the end of the year under review, however the audit observed that he was not performing any duties to the Sabha.	He has performed the duties of the day shift service till 20 March 2023, and that he has not yet accepted the new duty assignment made on 20 March 2023.	Specific duties related to the position should be assigned.

3.3 Operating Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Due to non-installation of street lights as per the circular No. PR/01/01 dated 17 August 2010 of the Secretary of the Ministry of Power and Energy, an expenditure of Rs.4,038,100 incurred from the council fund had not been reimbursed.	Due to priority being given to the demands of the people and the installation of essential street lights, the circular instructions had not been followed.	The action should be taken in accordance with the circular.
(b) In accordance with the Gazette Notification No. 2235/54 dated 08 July 2021 containing planning and development orders/regulations of the Urban Development Authority has not been obtained development permits in relation to 04 newly constructed buildings within the Municipal area. According to the document, the fees of Rs. 6,864,000 had to be charged and the construction had not been regularized or removed.	The action will be taken after answered the letter sent to the Urban Development Authority seeking instructions for doing the legal work in the future	The action should be taken in accordance with the gazette notification.

3.4 Transactions of Extraneous Nature

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) The application related to a 474 square meter building for a commercial purpose at Mahahena Yakdehigahahena in Devinuwara Pradeshiya Sabha area was falsely approved by the chairman of Devinuwara Pradeshiya Sabha without referring to the Planning Committee even though it should be forwarded to the Urban Development Authority in accordance with the planning and development orders/regulations of the Urban Development Authority.	The building plans had been cancelled.	The action should be taken according to the Gazette Notification.
(b) The plot plan had been falsely approved by the chairman in relation to the application submitted by a private party for auctioning and selling the plot number 9142, which was 01 Acre 01 Rude 34.75 Perches adjacent to the Devinuwara Talpawila road in the Sabha area.	The fees will be collected.	Before approval is given, the conditions related to the preliminary plan settlement should be fulfilled.

3.5 Deficiencies in contract administration

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
During the construction of 03 concrete drains, 40.3 square meter of unfulfilled shuttering had been over paid an amount of Rs.59,279 during the year under review.	The overpaid fee will be recovered in the future.	The payment should be made only for work performed.

3.6 Human Resources Management

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) 09 employees who had been recruited as laborers in the Devinuwara Pradeshiya Sabha had been appointed to permanent service, however the education certificates submitted for recruitment had not been verified by the relevant institutions even up to 31 January 2023.	The certificates of three have been confirmed so far and letters have been forwarded to confirm the remaining certificates.	Certificates should be verified
(b) A Human Development Plan had not been prepared as per the annexure of Public Administration Circular No. 02/2018 dated 24 January 2018.	The Human Development Plan is being prepared for this year.	Action should be taken according to the circular.
(c) Rs. 5,113,510 had been spent from the council fund from the year 2020 to the year under reviewed as salaries and allowances to 03 workers in the work field of the council and one health worker without assigning the prescribed duties related to the positions.	Considering their competence and skill, they were employed to assist in office work with the new officers.	The prescribed duties related to the post should be assigned.