

**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 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations Statement of changes in 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 provisions of the National Audit Act No. 19 of 2018, Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 financial statements give a true and fair view of the financial position of the Devinuwara Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

**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 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 Practices, 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 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) 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 on the preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

| Audit Observation  | Comments of the Sabha                                   | Recommendation                                    |
|--|---|---|
| (a) The total cost of 07 items of wood and equipment had been under stated by Rs.82,198 and the Construction creditor balance to be paid in relation to 04 Construction had been overstated by Rs.227,189.                   | It had been corrected                                   | Action should be taken to properly accounted for  |
| (b) A creditor's provision of Rs.491,641 had been made for the repairing works of Kapugama Millaweveva Chaturi Pre-School, which had not started work.   | It had been corrected                                   | Action should be taken to properly accounted for. |
| (c) The expenditure of Rs.2,060,282 incurred for the repairing of buildings was capitalized under land and buildings   | It had been corrected                                   | Action should be taken to properly accounted for. |
| (d) In relation to 03 heads of income which had been accounted as receivable for the previous year, Rs.123,790 due to write off by the reason of litigation, the revenue receivable had been under-accounted by that amount. | That will be corrected.                                 | Action should be taken to properly accounted for. |
| (e) Fixed deposit interest of Rs.127,715 for the previous year had been accounted as income for the year of under review.  | That the accounts will be kept correctly in the future. | Action should be taken to properly accounted for. |
| (f) The amount of Rs.86,160 charged for overpayments related to previous years had been debited to the cash account and credited to the excess and deficiency account, without making provision.                             | That the accounts will be kept correctly in the future. | Action should be taken to properly accounted for. |

### 1.6.2 Non-reconciled Control Accounts or Records

| <b>Audit Observation</b>   | <b>Comments of the Sabha</b>                               | <b>Recommendation</b>   |
|--|--|---|
| Although the outstanding rental income balance shown in the financial statements was Rs.12,702,441 the balance according to the related schedule was Rs.11,873,095 due to that there was a difference of Rs.829,346. | That there is no related schedule document stating values. | The differences in the respective balances should be compared and the accounts should be correct. |

### 1.6.3 Documentary Evidences not made available for Audit

| <b>Audit Observations</b>  | <b>Comments of the Sabha</b>  | <b>Recommendation</b>   |
|--|---|---|
| 03 account subjects amounting to a total of Rs.189,074,953 could not be examined satisfactorily due to the non-submission of required information. | That the Fixed Assets Register will be corrected and the information included with the 2024 financial statements. | Evidence must be submitted to confirm 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 of year under review amounted to Rs.31,491,763 as compared with revenue over recurrent expenditure amounted to Rs. 20,240,880 in the preceding year.

### 2.2 Financial Control

| <b>Audit Observations</b>   | <b>Comments of the Sabha</b>  | <b>Recommendation</b>  |
|---|---|--|
| In the bank reconciliation statements prepared in relation to 04 bank accounts, 05 unidentified balances amounting to Rs.49,414 had not been settled for a long time. | That the balance of Rs.12,364 net value of these values, with the approval of the Governor of the Southern Province and related activities are done to credit the accumulated fund account. | Action should be made for made settlement as soon as possible. |

## 2.3 Revenue Administration

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

| Source of Revenue   | 2023              |                   |                   |                           | 2022              |                  |                   |                           |
|---------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|------------------|-------------------|---------------------------|
|                     | Estimated Revenue | Revenue billed    | Revenue Collected | Arrears as at 31 December | Estimated Revenue | Revenue billed   | Revenue Collected | Arrears as at 31 December |
|                     | (Rs)              | (Rs)              | (Rs)              | (Rs)                      | (Rs)              | (Rs)             | (Rs)              | (Rs)                      |
| i Rates and Taxes } | 3,585,236         | 2,887,132         | 2,733,790         | 6,099,639                 | 2,923,135         | 1,924,480        | 1,380,399         | 5,946,297                 |
| ii Rent             | 26,595,120        | 28,887,419        | 30,825,118        | 12,702,441                | 26,036,460        | 4,388,695        | 3,892,244         | 14,640,140                |
| iii License Fees }  | 3,399,900         | 4,184,864         | 4,160,404         | 181,250                   | 5,075,500         | 810,040          | 884,225           | 156,790                   |
| iv Other revenue }  | 16,410,800        | 10,744,038        | 7,793,138         | 3,467,456                 | 7,314,800         | 1,338,664        | 917,574           | 516,556                   |
| <b>Total</b>        | <b>49,991,056</b> | <b>46,703,453</b> | <b>45,512,450</b> | <b>22,450,786</b>         | <b>41,349,895</b> | <b>8,461,879</b> | <b>7,074,442</b>  | <b>21,259,783</b>         |

### 2.3.2 Performance in Revenue Collection

|     | Audit Observation  | Comments of the Sabha   | Recommendation                                |
|-----|--|---|---|
| (a) | At the beginning of the year under review, the outstanding assessment tax balance was Rs.5,865,770, and in relation to 3588 assessment units, the billing during the year was Rs.1,920,131 and Rs.7,785,901 should have been charged. During the year, the total collection was Rs.1,763,511. There for at the end of the year, Rs.6,022,390 remained outstanding. | That an amount of Rs.865,383 has been collected from the outstanding balance.                             | Arrears should be collected as soon possible. |
| (b) | Although assessable properties are to be assessed every 05 years and taxed on the annual value, the property assessment of 3300 assessable units was not updated after the year 2011.  | That documents have been submitted to the Valuation Department for property valuation on 27 October 2023. | Action should be done according to the Act.   |

- (c) In relation to 84 out of 129 rent-paying shops owned by the sabha, Rs. 11,873,095 and 44 stalls, fish boards and temporary stalls in 04 shopping malls were closed unused and Rs. 2,934,971 in arrears of rent had been due. That the observations are accepted and that the lease holders have been informed and sent letters to take over the closed shop rooms, floors and fish boards which have not been paid. Arrears should be collected as soon possible.
- (d) According to paragraph 11 of Southern Province, Local Government Commissioner's Circular No. ද.ප.පා/ප.පා.කො/2010/01 dated 27 December 2010, although the lessee should not transfer the lease right to another party without the sabha's approval, 03 shopping malls and 14 shops owned by the sabha had been used by another party. According to the instructions of the Local Government Commissioner regarding taking over the possession of the Kopiwatta No. 03 shop from the interim-leased shop, the outstanding amount had been from the lessee and the shop was given back to the same lessee. Action should be done according to the Circular.
- (e ) Kopiwatta Shop No. 03 belonging to the Devinuwara Pradeshiya Sabha, which had been given a monthly rent of Rs.13,000 by the lessee, had been interim leased for Rs.150,000 for 15 days of the Devinuwara Esala festival and regarding this interim lease, the revenue inspectors did not investigate and report to the sabha and necessary action had not been taken. That this shop room has been given for 15 days from 25<sup>th</sup> July 2023 for running a canteen, That the shop room was prepared for that purpose on 24th July 2023, that the shop room had been conducting private tutoring classes till 23rd July 2023 and that the canteen had been removed on 09th August 2023. Legitimate lessees should investigate interim leases and take necessary action as soon possible.
- (f) Rs.999,316 for court fines from the Chief Secretary of the Provincial Shaba and other authorities and Rs.59,798,885 should have been received for stamp duty. That observations are accepted. Arrears should be collected as soon possible.

### 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 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>                                  |
|--|--|--|
| As the sabha did not have a formal program to produce compost and recycle the non- perishable waste, nearly 3 ½ tons of garbage collected daily was dumped in the land called Wellamadama Molawatta and covered with soil. And because of this, there was also a risk of spreading Contagious disease in the area. | From March 2024, it has been decided to separate the perishable and non- perishable waste, and it has been decided to dispose of the perishable waste to the Wellamadama land and to send the non- perishable waste to the Galle Monroviawatte Solid Waste Management Center on a monthly basis. | A formal waste management system should be introduced. |

#### 3.2 Uneconomic Transactions

| <b>Audit Observation</b>   | <b>Comments of the Sabha</b>    | <b>Recommendation</b>                                   |
|--|---------------------------------|---|
| In the year 2013, from a certain company Rs.9.95 million informally purchased Terex 820 backhoe for Rs.3.995 million in loans and non-payment of the remaining amount of Rs.5.995 million from the Sabha's fund, The concerned company had to incur legal fees of Rs.112,007 due to taking legal action and Rs.68,305 due to not obtaining the registration certificate at the time of purchase. | That observations are accepted. | Purchases should be made according to proper procedure. |



### 3.3 Management Inefficiencies

| <b>Audit Observation</b>   | <b>Comments of the Sabha</b>   | <b>Recommendation</b>                                      |
|--|--|--|
| (a) According to Local Government Circular No. 2022/01 dated 15 December, 2022 for services provided by local government institutions, the introduction of online systems is mandatory, but by the end of the year under review, a website had not been created to facilitate online payments.                     | The Ministry of Public Administration has requested advice from the Commissioner of Local Government on whether the software can be obtained without charging money or whether it can be installed from the company that called for the price, but so far no advice or recommendation has been received in this regard. Therefore, installation of the website including online payment software is problematic. | Action should be done according to the Act.                |
| (b) For working without obtaining registration certificate and insurance cover of the backhoe that value of Rs.9.95 million and after the accident in the year 2019, according to the F.R 104(4) report made in the year under review, action had not been taken to recover the damages from the relevant parties. | That the former chairman and the retired secretary have been informed from time to time to recover the losses, so it has been decided to take legal action as they have not been able to pay the losses until now.   | Action should be done according to the finance Regulation. |

### 3.4 Operational Inefficiencies

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>  | <b>Recommendation</b>                       |
|---|---|---|
| (a) According to Section 149 of the Pradeshiya Sabha Act No. 15 of 1987, Although the fees should not exceed 1 percent of the total income, a hotel located in the sabha's jurisdiction had charged Rs.941,187 less due to charging | According to the income and expenditure report given by the concerned institution, the income was Rs.77,827,708 in respect of 1 percent tax | Action should be done according to the Act. |

Rs.778,277 instead of Rs.1,719,464 in relation to the previous year. amount of Rs.778,277 has been charged.

- (b) In terms of Section 10(6) of the Urban Development Authority Act No. 41 of 1978, During the period from 2016 to 2020, 761 building applications were approved and building development licences were granted between 03 and 07 years, but only 100 buildings had received compliance certificates. As the follow-up activities are not possible due to the busy schedule of the technical officers, if the relevant constructions of the final building licences have been approved and completed, the compliance certificate should be obtained before the expiry of the validity period. Otherwise, letters will be sent informing to extend the validity period of the license. Action should be done according to the Act.

### 3.5 Transactions of Contentious Nature

| Audit Observation  | Comments of the Sabha  | Recommendation   |
|--|--|--|
| (a) In order to provide transportation facilities for the officers of the sabha for the annual convention held by the Association of Provincial Management Service Officers, even though no legal provision has been made, in the previous and the years under review Rs.254,000 had been paid from Sabha's funds to an outside party. | That the approval of the Governor of the Southern Province has been received for this. | Action should be taken according to the Establishment Code, Financial Regulations and Circular provisions. |
| (b) The rent and surcharge which billed incorrectly of Rs. 85,570 related to Shop No. UFC 17 in Devinuwara New Mall had been written off from the books without obtaining the Governor's approval.   | That action will be made to obtain the Governor's approval.                            | Governor's approval should be obtained.  |

### 3.6 Assets Management

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>  | <b>Recommendation</b>                              |
|---|---|--|
| (a) Since the plot of land of about 10.44 perches belonging to the sabha in Kapugama Miriswatta land has been used by illegal residents for several years, In that regard, the sabha had not taken the necessary measures to evict the illegal residents after obtaining the necessary instructions from the local government commissioner. | That the relevant file has been submitted to the Commissioner of Local Government to take possession of Kapugama Miriswatta land. | Action should be taken to evict illegal residents. |
| (b) The building that has located the Bank of Ceylon, which is owned by the sabha, had remained idle since 2019 without being used for any effective purpose.   | It has been decided to install the library in the old Bank of Ceylon building, which is currently being renovated.                | Assets should be used effectively.                 |

### 3.7 Defects in Contract Administration

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>   | <b>Recommendation</b>  |
|---|--|--|
| (a) During the year under review, for the development of Devinuwara port road with tar, Rs.899,680 had been spent, at 8 places, the tarmac had come off and pits had been deepen. Also, even though several places on the road had been repaired for laying water pipes, they had not been repaired.                | That because the contract society did not repair these damages, the Shaba has taken steps to repair the damaged areas with the retention money.                          | Repairs should be made as soon as possible.  |
| (b) Due to the lack of proper preparation of the drainage system on the Crown City Road at the top of Talalla Kanda during the land auction, Rs.952,022 had to be spent. Also, since the drain was built without sufficient depth and slope for the water to flow, there was a risk of spreading contagious disease | That the necessary estimates for the construction of the drain at the beginning and end points of the road have been prepared and approved, and that the deficiencies in | At the time of land auction, the relevant road and drainage system should be constructed to the proper standard. |

diseases like dengue due to poor water flow and pooling of water. the previously constructed drain are also being rectified.

- (c) The Gandara Health Centre, which was half completed at a cost of Rs.1,271,174 in the year 2014, had not been completed by 25<sup>th</sup> April 2024, and the responsible parties of the sabha had not made arrangements to use it for effective work. That the building will be completed and the Gandara library will be installed there. Action should be made to use the money effectively.

### 3.8 Human Resources Management

| <b>Audit Observation</b>   | <b>Comments of the Sabha</b>   | <b>Recommendation</b>  |
|--|--|--|
| At the end of the year under review, the sum due from two employees who served, left service and retired in the Shaba was The loan balance of Rs. 306,137 had remained uncollected for many years. | That the Pension Department has been informed regarding the deduction of the loan instalments due from one person from the pension gratuity, That a complaint has been filed with the conciliation board regarding the electrician who left the service and that the decisions will be dealt with in the future. | Action should be made to recover outstanding employee loans. |