Damana Pradeshiya Sabha - 2024
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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Damana Pradeshiya Sabha for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 and Income and Expenditure Account, 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 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Damana Pradeshiya Sabha as at 31 December 2024, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements

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 this 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 Sub-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 to be prepared.

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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Designed and performed the appropriate audit procedures, identified and assessed the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.

- Obtained 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 internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Evaluated 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 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 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 Accounting Deficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The arrears advertising board revenue of Rs. 147,375, which was to be recovered as of December 31st of the year under review, had not been accounted for.	Since the arrears balances for Advertising boards are not documented, the amount receivable for the year 2024 has not been accounted for.	Arrears of income should be identified, documented and accounted for accurately.
(b)	The fixed deposit interest income for the year under review was understated by Rs. 654,518 in the financial statements.	Action will be taken to correct such mistake	Income should be accounted for correctly.
(c)	An amount of Rs. 1,253,090 in stamp duty for the year 2023 had not been recorded in the arrears stamp duty account.	Accepted. Action will be taken to correct the error that occurred in the accounting of arrears stamp duty.	Arrears of income should be accounted for correctly.

1.6.2 Unreconciled Control Accounts or Records

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The cash flow statement for the year ended December 31 of the year under review showed that the net cash flow during the year, after adding cash and cash equivalents at the beginning of the year, was Rs. 78,959,959. Therefore, the value of cash and cash equivalents at the end of the year was Rs. 5,381,226, a difference of Rs. 73,578,733 was observed.	Actions will be taken in the future to investigate this matter and correct the relevant errors.	The cash flow statement should be prepared correctly.
(b)	There was a difference of Rs. 1,140,216 between the value transferred to the income and expenditure account as per the Supplies Equipment and Capital Assistance Ledger Account for the year under review, and the value recorded in the Income and Expenditure Account	Accepted. This matter will be investigated and steps will be taken in the future to correct the relevant errors.	Inconsistencies should be identified and corrected.

1.6.3 Documentary Evidences not made available for Audit

	Audit Observation	Comments of the Sabha	Recommendation
(a)	It was not possible to satisfactorily verify 11 account subjects totalling Rs. 4,294,657 as stated in the financial statements, .Due to the non-submission of evidence such as fixed asset	There is no information regarding purchases for this value brought forward from 2010 or earlier.	Evidence confirming the accounts shown in the financial statements should be submitted.

	registries, schedules, balance confirmations and schedules with the parties to be paid, etc.,		
(b)	The audit evidence required to verify whether the specific expenditure related to the construction carried out at the cost of Rs. 497,303, which is shown in the balance sheet as work in progress had been incurred or not, was not sufficiently presented.	After verifying the information regarding the balance indicated as working progress that has been carried forward for many years, Action will be taken to remove this balance from the accounts.	Correct information should be identified and resolved.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules and Regulations

Non-compliance with Laws, Rules and Regulations are as follows.

	Reference to Laws, Rules Regulations	Non Compliance	Comments of the Sabha	Recommendation
(a)	Pradeshiya Sabha (Finance and Administration) Rules, 1988			
	(i) Rule 5 (xii)	Action had not been taken to obtain adequate security deposit from the officers responsible for financial and storage functions.	So far, Security deposits have been obtained from the Finance Assistant, the Warehousing Officer and the drivers, and accounts have been opened.	Actions should be taken in accordance with financial and administrative rules.
	(ii) Rule 218	Although actions should have been taken to inspect all lands and buildings owned by the Sabha at least once a year, it had not been act accordingly.	Action will be taken to conduct a land and building inspection in the future.	Actions should be taken in accordance with financial and administrative rules.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
	(i)Finance Regulations 371(2) (b) as amended by the Treasury Secretary's Public Finance Circular No.	Although only executive officers can be given a sub imprest up to a maximum of Rs. 100,000 at a time	Accepted. This advance money has been given for various activities in the office	Advances should be given within the specified limits as per the financial

01/2020 and dated 18 August 2022.	for a specific task, non-executive officers of the Damana Pradeshiya Sabha were given an advance of Rs. 162,500 on 10 occasions, exceeding the limit of Rs. 100,000.	and the advance has been reimbursed.	regulations.
(ii)Financial Regulation 571	As of December 31st of the year under review, action had not been taken in accordance with the financial regulations regarding tenders, contracts and various deposit balances worth Rs. 3,004,349 for which the parties to be paid were not identified as per the deposit schedules and deposit balances that had elapsed two years from the date of deposit.	Accepted. In the future, Action will be taken in respect of these balances in accordance with Section 571.	Actions should be taken in accordance with financial regulations.

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 amounted to Rs. 692,077 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 4,766,125 in the preceding year

2.2 Financial Control

Audit Observation	Comments of the Sabha	Recommendation
Action had not been taken to settle the amount of Rs. 150,000, which had been recorded as errors of bank in the bank reconciliation statement relating to the bank account belonging to the Pradeshiya Sabha since January 2022.	As soon as approval is received, the funds in account number 5719951 will be transferred to account number 5719952 and account number 5719951 will be cancelled.	The bank should take steps to correct the mistake it has made.

2.3 Revenue Administration

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

According to the information presented by the Chairman of the Sabha relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

	Source of Revenue	2024 Estimated Revenue	2024 Revenue billed	2024 Revenue Collected	2024 Arrears as at 31 December	2023 Estimated Revenue	2023 Revenue billed	2023 Revenue Collected	2023 Arrears as at 31 December
		Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
i.	Rates and Taxes	420,906	420,906	309,087	1,671,285	770,900	797,578	850,683	1,746,621
ii.	Rent Income	2,638,800	2,680,800	2,717,616	2,389,694	4,912,500	5,485,829	4,709,536	2,653,016
iii.	License Fees	2,644,500	516,250	432,500	83,750	1,712,500	1,052,900	1,052,900	83,750
iv.	Other revenue	1,853,500	1,361,997	1,361,997	–	1,175,000	1,270,523	1,270,523	–
v.	Total	7,557,706	4,979,953	4,821,200	4,144,729	8,570,900	8,606,830	7,883,642	4,483,387

2.3.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The assessment tax arrears to be recovered as of 31 December 2024 was Rs. 1,709,403, which was more than four times the annual assessment tax value of Rs. 420,907.	The absence of a revenue inspector for about 03 years had a direct impact. Since a revenue inspector has been attached to our office this year, it is expected that the assessment tax will be collected.	Financial administration rules should be followed and revenue in arrears should be recovered immediately.
(b)	Necessary steps had not been taken to settle the acreage tax value of Rs. 230,850, which had not been collected for a long time.	This is a balance that has been carried forward for many years, and due to the lack of any information about this, it is not possible to take the necessary action.	Action should be taken to settle the matter.
(c)	As of December 31, 2024, the rent in arrears was Rs. 2,621,066, and the balance consisted of 31 arrears balances that were due for collection for a period of 1 to 3 years or more.	The absence of a revenue inspector for about 3 years had a direct impact.	Action should be taken to recover arrears balances promptly.

(d)	The stamp duty in arrears of Rs. 103,045, which is more than 05 years old, is being carried forward in the accounts and no action had been taken to verify whether those balances were actually due to the Sabha and to collect or settle them.	Action will be taken in the future to identify and account for stamp duty revenue receivable from October 2023 to December 31, 2024, and to confirm the balances in the accounts that have been carrying forward for many years.	The income related to the year should be accurately identified and accounted for.

3. Operational Review

3.1 Fulfilment 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.

Audit Observation	Comments of the Sabha	Recommendation
Action had not been taken to identify all the functions for which by-laws should be enacted under Section 126 of the Pradeshiya Sabha Act and to enact by-laws by 31 December 2024.	Currently, our Sabha has enacted 5 by-laws, and in the future, action will be taken to identify all the tasks that require the imposition of by-laws and to enact by-laws.	New by-laws should be established, and the activities imposed in the by-laws should be legalized.

3.2 Identified Losses

Audit Observation	Comments of the Sabha	Recommendation
The former Chairman of the Pradeshiya Sabha had attended a meeting held in Colombo on 09th May 2022 without obtaining the prior approval of the Local Government Commissioner, and on his way back, cab got caught for a riot and attacked and set fire to the cab, resulting in the cab being completely damaged. According to the preliminary report submitted in terms of Financial Regulation 104(3), the loss incurred by the vehicle was Rs. 8,500,000, but the amount received as insurance compensation was Rs. 5,000,000, resulting in a loss of Rs. 3,500,000 to the Pradeshiya Sabha. The value of the cab had also been removed from the books in the year under review without conducting a formal investigation and	Accepted. Steps will be taken to get the necessary further action.	A formal investigation should be conducted in accordance with financial regulations, its recommendations should be implemented, and the value should be removed from the books with approval.

	implementing the recommendations in terms of Financial Regulation 104.		

3.3 Management inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The value of the printer (Epson dot printer LQ - 310) received as a donation from the Local Government Assistant Commissioner's Office on July 18, 2023, had not been identified and accounted for.	Accepted. It will be accounted for.	Value should be recognized and accounted for.
(b)	There is an arrears of Rs. 1,082,250 for the year 2024 from 108 advertising boards, and no steps have been taken to recover the arrears or remove the unpaid advertising boards.	The necessary action will be taken after obtaining the assistance of the Revenue Inspector and verifying the advertising boards displayed.	Action should be taken to recover arrears or remove the advertising boards.
(c)	Action had not been taken to recover the arrear for 44 stalls belonging to the Hingarana Shopping Complex, Village 07, Muwangala, and Public Market.	Action will be taken to collect the arrears in the future.	Action should be taken to recover arrears promptly.

3.4 Idle or underutilized Property, Plant and Equipment

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The Sabhal had 9 vehicles in an unusable condition, remaining idle.	Necessary action will be taken in the future regarding vehicles that are in unusable condition.	The ownership of the vehicles should be taken over to the Sabha and action should be taken to auction or dispose of them.
(b)	Due to the lack of a professional trainer and income targets, equipment worth Rs. 1,496,025 at the fitness centre owned by the Pradeshiya Sabha has remained idle since 2022.	Accepted. Tenders have been awarded and measures have been made to open the bodybuilding centre.	The right revenue targets should be identified and equipment should be utilized efficiently.

3.5 Assets Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Although the value of the buildings belonging to the council had been accounted for according to the land and building schedule submitted with the financial statements, the value of the lands on which those buildings were located had not been assessed and accounted for.	A land valuation has not been carried out, and it is expected to take action in the future depending on the council's income situation.	Property values should be identified and accounted for.

(b)	The value of 27 cemeteries and 10 playgrounds belonging to the Sabha had not been identified and accounted for.	Although the assets have been included in the register, it is not possible to determine their value as no valuation has been done. Therefore, depending on the council's income situation, it is expected to take action in the future.	Values should be identified and accounted for.
(c)	The value of 07 motor vehicles and carts owned by the Sabha had not been identified and accounted for.	The value of two vehicles has been included under machinery and equipment, while the council does not have any documents regarding the value of five vehicles.	Values should be identified and accounted for.
(d)	No action had been taken to transfer the ownership of 09 vehicles in the possession of the Sabha in the name of the Sabha.	Action will be taken in the future to take over ownership of the vehicle.	Action should be taken to transfer the items to the name of the council.

3.6 Delays in Project Activities or Capital work

Audit Observation	Comments of the Sabha	Recommendation
Although proposals for 03 projects with a total value of Rs. 599,548 had been passed during the year under review, the Sabha had not taken the necessary steps to initiate those projects.	Due to the water flowing in the canal until the project was approved and the construction was completed, the project could not be completed within the estimated cost.	Further action should be taken to find out the reasons for not initiating the relevant projects.

3.7 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
During the year under review, there were vacancies for 19 officers in 10 posts belonging to the approved staff of the Pradeshiya Sabha. Among them, due to the vacancy of 02 posts of Revenue Administrator, it was not possible to carry out the activities such as conducting annual surveys, collecting arrears of revenue, taking legal action against those who evaded payment of revenue in arrears, etc.	Although we have made requests on several occasions to fill the vacancies, no officers have been assigned to fill the vacancies so far.	Action should be taken to fill the vacancies.

4. Accountability and Good Governance

4.1 Audit Committees

Audit Observation	Comments of the Sabha	Recommendation
In accordance with the Internal Audit Guidelines Circular No. DMA/01–2019 dated 12 January 2019 of the Department of Management Audit, the Sabha had not established the Audit and Management Committees and held committee meetings during the year under review.	Audit committees have been established and actions are being taken to hold committee meetings.	Action should be taken to hold meetings.

4.2 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
During the examination of the budgeted revenue and expenditure of the Pradeshiya Sabha in the year under review, it was observed that the budget document was not used as a financial guide, as a variation of -12 percent to 55 percent was observed in 04 revenue subjects and 43 percent to 143 percent in 06 expenditure subjects.	This is due to the fact that the budget is prepared for the approved staff of the institution.	Budget documents should be prepared in a way that can be used as financial guidance.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Sabha	Recommendation
The Sabha had not taken adequate action to collect the necessary data and provide the necessary financial provisions for achieving the sustainable development goals and objectives in accordance with the Sustainable Development Act No. 19 of 2017.	In future development projects, great attention will be paid to achieving sustainable development goals and targets.	Sustainable development indicators should be established and their performance should be evaluated.