

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Agalawatta Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, 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 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 Agalawatta Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

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 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

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 on the Preparation of Financial Statements

1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

Non-compliance with reference to relevant standard	Comment of the Sabha	Recommendation
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The statement of cash flows had not been prepared in accordance with the Chapter No. 3.27 to 3.32 of the Standard.	Will be prepared correctly in the future.	The financial statements should be prepared in accordance with the Standard.
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1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Recurrent expenditure amounting to Rs.266,587 paid for the usufruct of land had been capitalized.	The correction will be made by the journal entry during the preparation of the financial statements of the year 2024.	Accounts should be prepared properly .
(b) Although machinery amounting to Rs.767,520 had been disposed during the year under review, it had not been adjusted in the financial statements.	-do-	-do-
(c) The credit balance amounting to Rs.197,550 had been settled during the year under review had not been adjusted in the financial statements.	-do-	-do-
(d) Although the cash balance of the Sabha's bank account as per the cash book was Rs. 1,230,406, it had been shown as Rs.1,134,889. in the financial statements as at 31 December of the year under review.	-do-	-do-
(e) Although the Local Loans and Development Fund as at 31 December of the year under review amounting to Rs.1,218,263 was Rs.1,081,751 after adjusting the premium	This difference had been done in every year.	The reason for the difference should be found and corrected.

payable in the year under review, it had been shown as Rs.1,080,530 in the financial statements.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below .

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka	(a) F.R.104 Although the initial investigation had been conducted regarding the misplacement of the refrigerator in the Agalawatta milk shop, it had not been taken action to identify the responsible persons and recover the loss.	Future arrangements will be done.	Should be act accordance with the Financial Regulation.
(b)F.R.571	The tender deposits collected from 15 units from the year 2018 to the year 2021 amounting to Rs.403,908 and the bail deposits of Rs.5,000 and Rs.4,500 for the years 2004 and 2011 respectively had not been settled at the end of the year under review.	The action will be taken to get as revenue.	-do-

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2023 amounted to Rs.36,892,848 as compared with the excess of expenditure over revenue amounting to Rs. Rs.23,720,050 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 , estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	Estimated Revenue	2023			2022			Arrears as at 31 December	Arrears as at 31 December
		Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected		
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	
(i) Rates and Taxes	3,647,580	3,518,563	2,784,743	1,107,353	4,377,989	4,448,413	3,699,567	1,586,267	
(ii) Rent	6,835,297	6,835,297	6,519,597	315,700	5,995,500	5,872,772	5,680,964	191,808	
(iii) License Fees	1,260,790	1,179,877	1,179,877	-	420,000	378,792	378,792	-	
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	11,743,667	11,533,737	10,484,217	1,423,053	10,793,489	10,699,977	9,759,323	1,778,075	
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2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below.

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and Taxes		
According to the assessment tax period analysis as at 31 December year under review, the arrears less than one year is Rs.366,112, the arrears between years 01 to 03 is Rs.414,218, the arrears between years 03 to 05 is Rs.147,195 between the years 05 to 10 is Rs.147,821.	The action is being taken to recover the arrears.	The action should be taken to recover the arrears.
(b) Other Income		
Court fines amounting to Rs.3,807,500 and stamp fees amounting to Rs.11,000,000 were due on 31 December 2023 from the Chief Secretary of the Provincial Council and other authorities.	-do-	-do-

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comment of the Sabha	Recommendation
(a) In the year 2010, the Disaster Management Centre building was constructed in a sabha's land under the Puranaguma project, but the sabha did not have an agreement with the relevant party regarding the construction and the sabha had taken over the building in 2016 without checking the standard, quality etc of the construction.	The letter had been sent to the Ministry of Disaster Management to make an arrangement to formal handover through a written agreement.	The action should be taken to enter formal agreement when carrying out construction by external parties on sabha's property.

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| (b) Front part of the building had been collapsed in the year that the building was taken over and it had been spend amounting to Rs. 627,745 to get a condition report of the building that was built without proper standards and to prevent from collapsing again. It had been taken decision in year 2020 to demolish the building due to discard. | These costs have been incurred to prevent the building from collapsing again and for the safety of the surrounding buildings. | The loss to the sabha should be recovered from the responsible parties. |
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3.2 Identified Losses

Audit Observation	Comment of the Sabha	Recommendation
35 books had been issued prior to 8years by the sabha's libraries had not been returned even at the end of the year under review.	Action will be taken to returned books.	Issued library books should be returned in the relevant time period.

3.3 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
The unsettled loan balance by the sabha for 04 projects implemented from 2010 to 2015 was Rs.188,756.	Action will be taken to settled	Should be settled long term loan balances.

3.4 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Although the rent should be revised every 02 years as per the shop lease agreement, rent of the public market shops had not been assessed after the year 2019.	An amendment will be made in the future.	The rent should be revised once in 02 years according to the agreement.

3.5 Idle or under-utilized Property, plant and equipment

Audit Observation	Comment of the Sabha	Recommendation
The Sabha owned tipper and backhoe loader remained idle since year 2020.	Action had been got to transferred to another Sabha.	Proper action should be get regarding under-utilized assets.

3.6 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) According to Section 10 of the Public Cemeteries and Private Cemeteries Ordinance No. 57 of 1946, security fences should be built for the protection of cemeteries, however none of the cemeteries	Acquisition process of cemetery had been delayed, safety procedure hd been followed after getting the owner ship.	Acquisition of cemeteries should be expedited and safety fences should be arranged.

owned by the Sabha had not build fenced boundaries.

- (b) The ownership of 25 cemeteries under the administration of Agalawatta Pradeshiya Sabha was not transferred to the Sabha. The action will be taken to acquire to the Pradeshiya Sabha. The transfer of ownership of cemeteries should be expedited.

3.7 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
Debt balances of Rs. 160,170 related to the years 2017 and 2019 from two officers who were retired had not been collected at the end of the year under review.	will be recovered as instalments.	Employee loan balances should be recovered.