Palagala Pradeshiya Sabha - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Palagala Pradeshiya Sabha for the year ended 31 December 2024 comprising the Statement of assets and liabilities as at 31 December 2024 and the Comprehensive Income Statement, Statement of changes in Equity / 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 in sub-section 10(1) 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 accompanying financial statements give a true and fair view of the financial position of the Palagala Pradeshiya Sabha as at 31 December 2024, 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

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 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 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
According to the revenue survey reports as of March 31, 2024, the comprehensive revenue had increased by Rs. 125,445 due to the fact that the billing income for the year under review was Rs. 141,020 more in relation to industrial tax, professional and business tax and trade license revenue sources and the billing of advertising and billboard revenue was Rs. 15,575 by less accounted.	Accepted.	The correct value must be accounted.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
Although the value of one item as per the financial statement and ledger for the year under review was Rs. 1,752,044, the value as per the schedule was Rs. 2,321,014, a difference of Rs. 568,970.	Accepted.	Action should be taken to compare and correct the corresponding reports with the schedules.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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

	Reference to Laws, Rules Regulations etc.		Non-compliance	Comments of the Sabha	Recommendation
(a)	Paragraph 3.1 of the Pub.ad. Circular No. 30/2016 dated 29th December 2016		Fuel combustion tests had not been conducted on 12 vehicles owned by the sabha during the year under review.	Accepted.	Action should be taken as per the circular.
(b)	Paragraph 02 (b) of the Treasury Secretary's Asset Management Circular No. 01/2018 dated 19th March 2018 and Public Finance Circular No. 02/2015 dated 10th July 2015		The sabha had not taken steps in 2024 to dispose of 03 vehicles that had been out of use for a period of 01 to 05 years.	Accepted.	Action should be taken as per 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. 5,452,673 as compared with the excess of revenue over t expenditure amounted to Rs. 2,825,621 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 submitted by the Secretary of the Sabha, information related to the estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year are mentioned below.

		2024				2023			
	Source of Revenue	**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.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	1,731,175	1,911,105	1,897,705	43,280	1,582,470	1,772,920	1,743,040	29,880
(ii)	Rent	2,565,017	3,801,817	3,801,817	1,926,870	2,553,893	2,915,370	2,379,300	1,926,870
(iii)	License fees	386,280	383,225	369,225	14,000	271,220	293,890	293,890	-
(iv)	Other Revenue	13,961,500	20,057,432	6,559,523	26,419,800	39,463,360	15,997,115	11,211,463	12,921,891
		18,643,972	26,153,579	12,628,270	28,403,950	43,870,943	20,979,295	15,627,693	14,878,641

2.2.2 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)	**Rent**		
	The rent due for the lease of the meat shops from 2019 to 2023, Rs. 1,869,450, had not been collected in the year under review.	That a lawsuit has been filed to recover the outstanding amount.	Legal action should be taken to recover the outstanding amount.
(b)	**Other Revenue**		
(i)	Action had not been taken to recover Rs. 213,723 receivable to the sabha for various supplies relating to the years 2022 and 2023 in the year under review.	Legal action is being taken to recover the outstanding amount.	Legal action should be taken to recover the outstanding amount.
(ii)	The remaining items purchased by the sabha for the Corona project and not distributed to the beneficiaries had been sold to private parties and no action had been taken to recover Rs. 382,543 for those stocks.	Legal action is being taken to recover the outstanding amount.	Legal action should be taken to recover the outstanding amount.
(c)	**Court fines and Stamp duty**		
(i)	The court fines receivable from the Chief Secretary of the Provincial Council and other authorities as of December 31, 2024 were Rs. 12,797,815 and stamp duty was Rs. 2,899,800.	That steps are being taken to recover the outstanding amount.	Action should be taken to recover the outstanding amount.
(ii)	Although stamp duties were billed as Rs. 1,230,600 and Rs. 1,418,500 respectively in 2022 and 2023, stamp duties in the year under review were estimated at a minimum of Rs. 300,000 and included in the income statement.	That steps are being taken to recover the outstanding amount.	Estimates should be prepared accurately.

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 3of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comments of the Sabha	Recommendation
By-laws		
Under Section 126 of the Pradeshiya Sabha Act, by-laws could have been enacted to carry out 30 main matters, but as of 31st of December 2024, the sabha had not enacted by-laws for those matters.	That the by-laws enacted by the Provincial council have been adopted.	Action should be taken to enact by-laws.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
Action had not been taken to recover the loss of Rs. 23,847 from the responsible parties regarding 87 books that were misplaced in the Aadiyagala Public Library and Pubbogama Public Library.	That steps will be taken to recover the losses from the responsible persons.	A formal investigation should be conducted and steps should be taken to recover the loss from the responsible parties.

3.3 Idle or underutilized Property, Plant and Equipment

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Although more than Rs. 10 million was spent on the purified drinking water bottle project from 2020 to 2023, the resources used for the project remained idle without being utilized in a way that would generate income for the sabha.	This work has been stopped due to the failure to obtain a standard certificate for the water samples from the Sri Lanka Standards Institution.	Necessary actions must be taken to utilize it.
(b)	The Interlock Project, which was initiated in 2022 at a cost of Rs. 8,699,044 to increase the sabha's revenue, remained idle without being utilized to achieve the expected objectives.	Work is underway to repair the interlock machine.	Necessary actions must be taken to utilize it.
(c)	The Pradeshiya Sabha had spent Rs. 16,865,484 in 2021 on a project to produce and sell compost fertilizer, but due to public protests against the implementation of the project, the project was stopped, and as a result, those assets remained idle, and some of the constructions completed within the project were being destroyed.	All constructions are being completed and put into use.	Necessary actions must be taken to utilize it.

(d)	Rs. 37,749,784 was spent between 2022 and 2024 on the Coconut-Based Products Project, which was implemented to achieve the objectives of introducing new coconut-based products, encouraging coconut farmers in the area, creating employment opportunities for the people of the area, introducing local products to the market and generating additional income for the sabha, but it remained idle without being utilized to achieve the expected objectives of the project.	That arrangement have been made to use it.	Necessary actions must be taken to utilize it.