

## **Pathadumbara Pradeshiya Sabha - 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Pathadumbara 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 paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Pathadumbara Pradeshiya Sabha as at 31 December 2024, and of its financial performance and 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 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 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 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 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

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	Although Rs. 3,800,000 was spent in 2022 to improve the Sabha's vehicle service centre, an understatement by 3,420,000, was recorded by accounting for Rs. 380,000.	It will be corrected in the future.	Accounts should be prepared correctly.
(b)	Machinery and plants worth Rs. 322,515, which had been removed from the board of survey in previous years, had not been written off from the accounts by the end of the year under review.	It will be corrected in the future.	Accounts should be prepared correctly.
(c)	As at the end of the year under review, the value of the backhoe loader (JCB) that was accounted for under machinery and plants of Rs. 16,695,000 had also been accounted for under Motor Vehicles and Carts as Rs. 7,000,000	-Do-	-Do-
(d)	The value of 07 units of machinery included in the machinery and plants schedule had been overstated by Rs. 103,279. Also, in the machinery and plants balance, a total of 20 units amounting to Rs. 79,717,999 had been recorded twice.	-Do-	-Do-
(e)	The total court fine income of Rs. 248,332 and the total stamp duty income of Rs. 103,253,780 relating to the previous year had been accounted for as income in the year under review, while the total court fine income of Rs. 265,852 and the total stamp duty income of Rs. 10,843,070 relating to the year under review had not been accounted for.	-Do-	-Do-

(f)	Advertisement board fees receivable as of the end of the year under review amount to Rs. 358,760 had not been accounted for.	It will be corrected in the future.	Accounts should be prepared correctly.
(g)	Retention money on 12 development projects for the year under review had been under-accounted for by Rs. 817,678	-Do-	-Do-

## 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs. 13,140,916 between the balances of 11 account subjects shown in the financial statements and the balances shown in the relevant schedules as at the end of the year under review.	Action will be taken to look for and correct it.	Account balances should be reconciled with the balances in schedules and corrected.

## 1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to the non-submission of inventory documents, files, balance confirmation letters and physical presence related to the total asset balance of Rs. 768,513 and 02 liability balances shown in the financial statements, they could not be satisfactorily verified.	Documents and files will be prepared after examine.	Documents and files that confirm assets and liabilities should be maintained.

## 1.7 Non- Compliances

### Non-compliance with Laws, Rules Regulations and Management Decisions

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha (Finance and Administration) Rules, 1988 Rule 218	A survey of lands and buildings had not been conducted.	Action should be taken to conduct a survey in the future.	A survey of the assets should be conducted and their existence should be confirmed.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			

F.R. 571(3)

During the period from 2014 to 2020, 18 lapsed deposits of Rs. 1,055,811 had not been settled.

Action will be taken to settle.

Lapsed deposits should be settled.

## 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 2024 amounted to Rs. 117,240,205 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 26,164,031 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 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

		2024				2023			
	Source of Revenue	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
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		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	6,380,000	7,838,700	6,924,108	5,769,002	5,793,650	7,156,980	7,221,788	4,854,409
(ii)	Rent	4,273,152	5,343,564	5,358,243	619,389	4,273,152	5,064,798	4,804,288	634,069
(iii)	License Fees	3,416,900	2,849,846	2,849,846	-	3,180,000	3,180,000	3,572,481	-
(iv)	Other revenue	98,346,407	138,632,329	139,408,844	28,560,889	94,790,379	48,534,638	44,570,296	29,337,405
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		112,416,459	154,664,439	154,541,041	34,949,280	108,037,181	63,936,416	60,168,853	34,825,883

#### 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) <b>Rates and Tax</b> The arrears rates balance as at the end of the year under review was Rs. 5,769,002. Out of this, 148 properties with an arrears rates exceeding Rs. 5,000 per unit had a total balance of Rs. 1,341,413.	Legal action will be taken to recover the amount.	Arrears of revenue should be collected promptly.

**(b) Other Income**

The arrears water charges balance as of the end of the year under review was Rs. 2,282,096, and a total arrears of Rs. 1,026,229 in water charges had not been collected from 118 water consumer units whose water charges in arrears exceeded Rs. 5,000 per unit.

Arrears charges will be charged through disconnections.

Arrears of water charges should be collected promptly.

**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**

**(a) Failure to reach expected outcome**

As per the Circular No. 2020/06 of the Commissioner of Local Government dated 28<sup>th</sup> September 2020, the Sabha had invested a total of Rs. 84,673,708 in fixed deposits as at the end of the year under review without utilizing the surplus funds in revenue generating projects and property development, while Rs. 124,082,117 remained idle in the current account.

Development activities are being carried out with interest income.

Surplus money should be used for regional development.

**(b) Abandoned Activities**

Without preparing a total cost estimate and plan for the construction of the new office building, construction began in 2021 and was carried out in 4 phases at a cost of Rs. 20,272,380. The ground floor was constructed with a concrete roof and half of the building was completed, while the remaining work on the building was halted halfway.

The problems will be resolved and further work will be carried out.

The building should be constructed and utilised for productive use.

**(c) Solid Waste Management**

Although the two parties signed a Memorandum of Understanding on 12th October 2016 for the Japanese technology automated and organic fertilizer production program jointly implemented by Kundasale Pradeshiya Sabha and Pathadumbara Pradeshiya Sabha, and Pathadumbara Pradeshiya Sabha had incurred an expenditure of Rs. 21,559,975, the Kundasale Pradeshiya Sabha had not acted in accordance with the agreement since July 2022. Although the agreement stated how to recover financial losses resulting from breach of contract or how to proceed in the event of a dispute, this issue had not been resolved by the end of the year under review.

It will be discussed and decisions will be made in the future.

The project should be successfully implemented by working collectively in accordance with the agreements related to the project.

**(d) Environmental Problems**

As per the provisions of Section 93 (b) of the Pradeshiya Sabha Act No. 15 of 1987, a Gully service had not been maintained to enable the pits to be cleaned and emptied within the proper time frame for the disposal of sewage from houses in the area.

Even though there is a gully truck, there is no place to dispose of it.

Problems should be resolved and public needs should be met effectively.

**3.2 Management inefficiencies**

<b>Audit Observation</b>		<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	The total of 04 accounts receivable balances as at 31 <sup>st</sup> December of the year under review was Rs.6,630,491. Therein, the total of account balances relating to the period between 1 to 3 years was Rs.155,316 and the total of accounts receivable for more than 5 years was Rs.724,002.	That action will be taken to examine and recover.	Amount receivables should be recovered.
(b)	The total of 02 account balances due as at 31 <sup>st</sup> December of the year under review was Rs.12,841,906. Therein, the total of account balances relating to the period between 3 and 5 years was Rs.180,000 and the total of Rs.1,265,827 which had been outstanding for more than 5 years had not been settled.	Action will be taken to examine and settle	The balance payables should be settled.

### 3.3 Idle or underutilized Property, Plant and Equipment

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	The vehicle, valued at Rs. 1,600,000, and 03 vehicles whose value was not identified, had been idle or underutilized for a period ranging from 01 to 15 years.	Action will be taken on the advice of a mechanical engineer.	It should be repaired and put to use or disposed of.
(b)	Without conducting a study on the need and placement, the High-Pressure Pump machine purchased for Rs. 295,000 in 2022 for the vehicle service centre was remained idle without taking steps to use it.	It will be referred to the Sabha and decisions will be made.	Assets should be utilized and efforts should be made to generate income.

### 3.4 Improper Transactions

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	Although 23 stalls of the Madawala Public Market Complex, which had been closed since 2003, were demolished and a new shopping complex was planned to be constructed at an estimate of Rs. 75,308,678, and Rs. 108,000 as architectural consultancy fees, Rs. 100,000 as engineering consultancy fees and Rs. 47,000 for surveying work, totalling Rs. 255,000, were paid during the year 2020-2021, the Road Development Authority had not recommended the plan as the relevant plan fell within the street line limit. It was observed that officers who did not conduct a pre-study of the location within the street line boundaries and identify it and take action are being responsible for this loss.	Further action will be taken after examining	A feasibility study should be conducted, the need identified, and projects should be planned and implemented appropriately.
(b)	Since there were no legal deeds for the land on the Teldeniya Road where the shopping complex is located and the land on the Meerammanawa cemetery, which were assigned to the Sabha by the Certificate of Incorporation, the deeds for those lands had been registered by the deed of transfer for a value of Rs. 200,000 and Rs. 300,000 respectively, without resorting to other formal procedures to verify the Certificate of Incorporation.	Disciplinary action will be taken against the relevant parties.	An investigation should be conducted into the failure to follow the prescribed procedure and perform the duties.



### **3.5 Human Resources Management**

#### **Audit Observation**

When comparing the approved staff and the actual staff, there were 16 vacancies in 11 posts and 05 excess in the Development Officer post.

#### **Comments of the Sabha**

A staff review was conducted and sent to the Commissioner of Local Government.

#### **Recommendation**

Public services should be maintained efficiently by filling vacancies and appropriate action must be taken regarding excess staff.