

Badalkumbura Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Badalkumbura pradeshiya sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, Statement of Finance Operation, Statement of Net Assets Changes, Cash Flow Statement 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, the sub section 172(1) of 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 Badalkumbura 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

I expressed qualified opinion regarding financial statement 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 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 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) The financial statements presented includes all the recommendations made by me in the previous year of this report 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 Council	Recommendation
(a) The water revenue for the year under review was overstated by Rs. 238,334.	The corrections will be made when preparing the financial statements for the year 2025.	The accounts must be corrected.
(b) As at 31 st December of the year under review, Rs. 164,384, which should have been shown as closing stock, had been accounted for under machinery and equipment.	-Do-	-Do-
(c) The container yard worth Rs. 2,645,000 purchased to provide office facilities in the Katugahagala tourist area was accounted for under machinery and equipment, although it should have been accounted for under land and buildings.	-Do-	-Do-

1.7 Non- Compliances

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

The following are examples of non-compliance with laws, rules, regulations and management decisions.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987 Section 19 (xii)	The approval of the Minister in charge of the subject had not been obtained when leasing out 14 shops belonging to the Pradeshiya Sabha.	It has been forwarded to the Assistant Commissioner of Local Government for approval.	The approval of the Minister in charge of the subject must be obtained for the long-term lease of the council's property.

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| (ii) | Section 24(1) | 355 roads included in the road inventory maintained by the council had not been published in the Gazette. | This work will be carried out quickly in the future. | The road inventory should be updated and maintained, and the roads included in it should be published in the Gazette. |
| (b) | Sections 31 (iii) and 40 of the Private Shops By-law. | The lessees had assigned 02 shops to other parties, contrary to the lease agreements. | That we will work to correct it in the future. | Actions must be taken in accordance with the bylaws. |
| (c) | Section 83(1) of the Urban Development Authority Act No. 41 of 1978 | 74 building plans approved from 2018 to 2020 had not been inspected and certificates of compliance had not been issued. | Necessary steps will be taken to issue certificates of conformity in the year 2025. | Action should be taken to issue certificates of conformity promptly. |

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 31December 2024 amounted to Rs. 19,647,458 as compared with the excess of revenue over recurrent expenditure amounted to Rs . 11,397,831 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 Council Secretary, the information on estimated income, billed income, collected income and arrears of income submitted for the year under review and the previous year is shown below.

<u>2024</u>					<u>2023</u>				
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	
(i) Assessment s and taxes	3,742,944	3,590,638	2,844,678	885,843	3,250,274	3,404,891	2,341,343	1,063,549	
(ii) Rent	6,416,200	3,931,093	3,873,693	189,450	3,949,600	3,876,782	3,707,307	169,475	
(iii) License fees	610,025	808,250	808,250	-	730,200	444,150	444,150	-	
(iv) Other Revenue	13,237,800	26,604,622	17,493,310	14,250,649	22,250,000	17,891,606	7,322,119	10,569,487	
Collection	24,006,969	34,934,603	25,019,931	15,325,942	30,180,074	25,617,429	13,814,919	11,802,511	

2.2.2 Performance in Revenue Collection

The following are observations regarding the revenue collection performance of the council.

	Audit Observation	Comments of the Council	Recommendation
(a)	Out of the total revenue billed in the year under review of Rs. 34,934,603, Rs. 15,325,942 had not been collected by the end of the year, which was 44 percent of the total billed revenue.	That effort being made to collect the billed revenue.	Action should be taken to recover the arrears of revenue.
(b)	Other outstanding income As of January 01 of the year under review, Rs. 205,470 of outstanding machine rent relating to the years 2017 and 2021 had not been recovered as of December 31 of the year under review.	That the relevant persons have been informed in writing.	Action should be taken to recover the arrears of revenue.

2.2.3 Court fines and Stamp duty

	Audit Observation	Comments of the Council	Recommendation
	The court fines due from the Chief Secretary of the Provincial Council and other authorities as at 31st December of the year under review amounted to Rs. 1,328,021 and stamp duty amounted to Rs. 12,187,313.	That necessary step will be taken to promptly recover the outstanding amounts.	The arrears of revenue should be brought in urgently.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Although the Pradeshiya Sabha had incurred an expenditure of Rs. 210,760 since 2017 to acquire the land with the Kadiyanthalawa quartz mineral and obtain mineral mining permits, as of December 31 of the year under review, the relevant land had not been acquired by the Sabha and the relevant environmental protection permit and mining permit for quartz mining had not been obtained.	The land has been referred to the Divisional Secretary for acquisition.	After acquiring the land, the relevant permits should be obtained and the project should be implemented promptly.

- (b) The approval of the Urban Development Authority had not been obtained for the building plans for the ground floor construction project of the weekly market Multipurpose Building, which was completed on 22 June 2023 by the Pradeshiya Sabha at a cost of Rs. 54,654,409 under the provisions of the Regional Development Support Project, as of 31 December of the year under review.
- That the relevant Approval for building payments will be made in 2025 and steps will be taken to obtain building plan approval.
- Approval for building plans must be obtained before construction can begin.

3.2 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Two vehicles belonging to the Pradeshiya Sabha had been idle for more than 10 years.	As mentioned, requests have been sent to the Provincial Mechanical Director for the disposal of old, inactive vehicles.	Urgent action should be taken to repair or dispose of idle vehicles.
(b)	The fish market located on the Bus Stop land, which was completed by the Pradeshiya Sabha on 15th November 2021 and had a value of Rs. 548,816, remained idle as it could not be leased.	In the future, the monthly rental assessment will be revised and the lease will be procured again.	Leasing should be done based on an accurate valuation.
(c)	Although the Pradeshiya Sabha had published a newspaper advertisement for the lease of the weekly market multipurpose building, which was completed on 22 June 2023 by spending Rs. 54,654,409 under the provisions of the Regional Development Support Project, at a cost of Rs. 72,733, it was not possible to operate the weekly market in the building due to the failure to conduct a proper feasibility study and implement this project, and no one had come forward to lease the relevant building. Accordingly, it was observed that the total expenditure of Rs. 54,654,409 spent on the construction of the project and Rs. 72,733 spent on publishing the newspaper advertisement, totaling Rs. 54,727,142, was a un-economic expenditure.	It has been reassessed for a long-term lease for 20 years and submitted for approval to the Minister in charge of the subject.	The council had lost revenue that could have been earned by keeping the council's property unused and idle.

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| (d) | The ownership of 95 lands belonging to the Pradeshiya Sabha had not been transferred to the council and survey work had not been carried out on 77 lands. | An application has been made to obtain a survey order and the survey order will be given to the Surveyors Department and the survey work will be carried out after payment is received. | Urgent action should be taken to take over ownership of properties belonging to the council. |
| (e) | The Pradeshiya Sabha had not systematically maintained the fixed assets register. | That step will be taken to properly prepare and maintain it in the future. | The fixed asset register should be maintained systematically and accurately. |

3.3 Apparent Misappropriations

Audit Observation	Comments of the Council	Recommendation
Although 265326 km had been travelled according to the vehicle's mileage meter, the cab belonging to the Pradeshiya Sabha had travelled 263807 km as per the logbook as of May 12, 2023, ,but it was observed during the audit that 1519 km had been misused for non-duty travel and that no control was maintained over the vehicles.	An investigation is underway in this regard.	Action should be taken according to the investigation recommendations.

3.4 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
As at 31 st October of the year under review, there was a shortage of 04 employees in 03 posts and a surplus of 08 employees in 03 posts.	Requests have been made to obtain approval from the Department of Management Services and this situation has arisen as a result of new recruitments and annual transfers made in recent years.	Staff vacancies must be filled and surplus staff positions must be approved.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure according to the budget prepared by the Pradeshiya Sabha for the year under review with the actual income and expenditure of the year, there were variations ranging from 32 percent to 1237 percent in 05 income subjects and from 37 percent to 619 percent in 06 expenditure subjects.	That step will be taken to prepare the budget properly in the future.	Annual budget estimates should be prepared more realistically and efforts should be made to achieve those goals.

4.2 Environmental Problems

Audit Observation	Comments of the Council	Recommendation
(a) It was observed that the waste collected by the Pradeshiya Sabha is dumped in an open area, that compost is not produced using biodegradable waste, and that non-biodegradable waste is burned and destroyed.	Waste is currently disposed of by separating biodegradable and non-biodegradable waste, but due to issues regarding the ownership of the land, it has not been possible to establish a permanent waste recycling center and develop a systematic waste disposal system.	Garbage should be disposed of in a proper manner.
(b) The council had not acquired the land where the waste was being disposed of and had not obtained an environmental protection permit for the disposal of the waste.	After resolving the issues regarding the ownership of the land where the waste will be disposed of, steps will be taken to acquire ownership of the land and obtain an environmental protection permit.	Steps should be taken to obtain an environmental protection permit as soon as possible.