

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Agarapathana 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 Agarapathana 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 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

| Audit Observation | Comments of the Sabah | Recommendation |
|---|---------------------------------|--|
| (a) As at the end of the year under review, the value of a three-wheeler used by the Sabha of Rs. 800,000 had not been accounted for. | It will be accounted next year. | Accounts should be prepared correctly. |
| (b) The value of library books as at the end of the year under review was understated by Rs. 498,729. | It will be accounted next year. | Accounts should be prepared correctly. |

1.6.2 Unreconciled Control Accounts or Records

| Audit Observation | Comments of the Sabah | Recommendation |
|--|--|--|
| When comparing the balances relating to 03 account subjects shown in the financial statements with the balances in the relevant schedules as at the end of the year under review, difference of Rs. 1,117,918 were observed. | This error occurred due to an omission. Action will be taken to correct it in the next year. | Account balances should be reconciled with the relevant schedules. |

1.7 Non- Compliances

Non-compliance with Laws, Rules and Regulations

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

| Reference to Laws, Non Compliance Rules Regulations | | Comments of the Recommendation Sabah | |
|---|---|---|--|
| (a) | Parliament Act | | |
| | Pradeshiya Sabha Act No. 15 of 1987 | | |
| | Section 52 | Necessary action had not been taken regarding 38 unauthorized constructions identified in the previous year and in the years before previous year. | unauthorized construction activities have been stopped. Legal action should be taken against unauthorized construction. |
| (b) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | |
| | F.R. 571 (3) | 40 lapsed deposits totaling Rs.2,305,238 for the period from 2018 to 2022, had not been settled. | Since there is not enough money in the Sabha fund for the release, action will be taken to redeem it in parts or in instalments when sufficient funds are available. Lapsed deposits should settled. |
| (c) | Circulars of the Commissioner of Local Government | | |
| | Circular No. 1988/22 dated 17th May 1988 | Although the valuation of properties subject to assessment tax should be carried out at least once every 5 years, a new valuation had not been carried out since the valuation carried out in 2008. | An application has been made to the Valuation Department to assess the assessment property, but it has been delayed. Assessment reports should be obtained and assessments collected within the stipulated time fperiod. |

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December amounted to Rs.376,380 as against the excess of revenue over recurrent expenditure amounted to Rs. 2,305,370 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 31December | Estimated Revenue | Revenue billed | Revenue Collected | Arrears as at 31December |
| | | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| (i) | Rates and Taxes | 3,109,199 | 3,810,109 | 3,401,235 | 2,746,973 | 1,576,584 | 3,628,080 | 3,379,480 | 2,338,098 |
| (ii) | Rent | 1,654,960 | 1,493,279 | 1,737,500 | 731,260 | 2,545,800 | 2,000,606 | 1,295,500 | 975,481 |
| (iii) | License Fees | 1,805,500 | 2,211,085 | 2,211,085 | - | 2,830,000 | 1,694,500 | 1,694,500 | - |
| (iv) | Other revenue | 5,277,000 | 3,728,461 | 3,450,702 | 4,683,776 | 64,739,712 | 4,135,820 | 2,897,847 | 2,328,221 |
| | | 11,846,659 | 11,242,934 | 10,800,522 | 8,162,009 | 71,692,096 | 11,459,006 | 9,267,326 | 5,641,800 |

2.2.2 Performance in Revenue Collection

| | Audit Observation | Comments of the Sabah | Recommendation |
|-----|---|---|--|
| (a) | The total revenue receivable as at the end of the previous year was Rs. 5,641,800 and as at the end of the year under review it was Rs. 8,162,009, showing an increase of 45 percent. Accordingly, the revenue collection performance remained at poor level. | The necessary action will be taken to bring revenue collection to a higher level. | Arrears of revenue should be recovered promptly. |

(b) Rates

Out of the assessment tax arrears of Rs. 1,208,757 as at the end of the year under review, Rs. 417,693 due from 305 assessment units for a period of 1 to 3 years, Rs. 156,847 due from 71 units for a period of 3 to 5 years and Rs. 611,957 due from 155 units for more than 05 years had not been collected in accordance with Section 158 of the Pradeshiya Sabha Act No. 15 of 1987.

Since there is no Revenue Inspector, it is not possible to act in accordance with the law and resort to property seizure proceedings.

An alternative program should be established to promptly recover arrears of revenue.

(c) Water charges

Out of the arrears of Rs. 1,406,256 as at the end of the year under review, Rs. 419,362 from 52 units for a period between 01 to 03 years and Rs. 33,292 from 5 units for a period between 3 to 5 years had not been collected.

The collection of outstanding water revenues is being carried on.

Arrears of revenue should be recovered promptly.

(d) Court fines and Stamp duty

The court fines due to the Chief Secretary and other authorities of the Provincial Council as of 31 December 2024 were Rs. 241,427 and stamp duty was Rs. 3,054,200.

That stamp duty and court fines will be brought.

Arrears of revenue should be recovered.

3. Operational Review

3.1. Identified losses

Audit Observation

A cab belonging to the Sabah had met with an accident on 05 September 2020, resulting in a loss of Rs. 3,567,160. Although the Financial Regulation 104 (4) investigation report conducted in this regard had recommended that the relevant loss be paid by the former Chairman, by the end of the year under review, those recommendations had not been implemented and no legal action had been taken.

Comments of the Sabah

Although it was recommended that the loss should be indemnified by the former chairman, he has default to pay it.

Recommendation

Legal action should be taken and damages should be recovered.

3.2 Management Inefficiencies

| | Audit Observation | Comments of the Sabah | Recommendation |
|-----|--|---|--|
| (a) | The balance of revenue and development projects receivables as at 31 st December of the year under review was Rs. 17,048,577. Therein, the total for the period between 01 and 03 years was Rs. 1,565,000 and the total for more than 05 years was Rs. 150,000. | Action will be taken to recover the relevant industries creditors during this year. | The balance receivables should be collected. |
| (b) | The balance of development projects and other creditors payable as at 31 st December of the year under review was Rs. 1,209,354. Therein, the balance outstanding for more than 01 year was Rs. 57,481. | Action will be taken to settle.. | The balance payables should be settled. |

3.3 Idle or underutilized Property, Plant and Equipment

| | Audit Observation | Comments of the Sabah | Recommendation |
|--|--|--|--|
| | A land with an area of 01 acre, 03 roods and 0.83 perches, which was received by the Sabha through a land auction, for a period of 17 years from 2008 to 2024 and machinery and office equipment worth Rs. 626,633 purchased between 2018 to 2021 for a period of 03 to 06 years remained idle or underutilized. | The land allotted through the land auction cannot be used for any productive purpose and there is not enough office space to use the equipment in the warehouse. | Suitable lands should be acquired for public purposes and all assets should be utilized. |

3.4 Asset Management

| | Audit Observation | Comments of the Sabah | Recommendation |
|--|--|---|------------------------------|
| | The building constructed at a total cost of Rs. 10,747,869 in the Sabha premises had not been recorded in the Fixed Assets Register. | Necessary steps will be taken to document these assets. | Assets should be documented. |

3.5 Human Resources Management

| Audit Observation | Comments of the Sabah | Recommendation |
|--|--|--|
| (a) When comparing the approved staff with the actual staff as at the end of the year under review, there were 78 vacancies in 16 posts. | The Local Government Commissioner has been informed. | Vacancies should be filled. |
| (b) The posts of 02 Revenue Inspector posts, 32 Work/Field Workers and Health Workers, and Pre-School Teacher and Librarian include in the approved staff are being vacant had a negative impact on revenue collection, road maintenance, and regularization of waste management, as well as the provision of community services to be performed by the Sabha. | The Local Government Commissioner has been informed. | Vacancies should be filled and community services should be performed efficiently. |
| (c) A loan balance of Rs. 254,850 due from two employees who transferred between 2022 and 2024 had not been recovered by the end of the year under review. | Action will be taken to recover this employee loan in instalments. | Outstanding employee loans should be recovered. |