

Lunugala pradeshiya sabha – 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lunugala 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 changes in equity, 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 Lunugala 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
Stamp duty of Rs. 143,560 received as direct bank transfers in December of the year under review had not been accounted for.	That it will be included in the account of the 2025 financial year.	The accounts must be corrected.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
(a) 47 land and building balances valued at Rs. 1,507,700, which could not be physically verified and did not have documents to verify ownership such as deeds, transfer orders, etc. were included in the property, plant and equipment balance as at 31 December of the year under review.	That steps are already being taken to systematically identify assets for which ownership has not been confirmed and to confirm ownership.	Action must be taken to ensure rights.
(b) Due to the failure to submit properly maintained deposit registers for 10 deposit balances amounting to Rs. 7,256,678 included in current liabilities as at 31st December of the year under review, these values could not be satisfactorily verified during audit.	An active program has been initiated for this purpose.	The deposit register must be updated and maintained.

1.7 Non- Compliances

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 Recommendation Council
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 134(3)	Internal audit reports had not been submitted to the Auditor General for more than 5 years.	The Director of Internal Audit will be informed to forward internal audit reports to the Auditor General. Reports must be submitted to the Auditor General in accordance with financial regulations.

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. 16,293,557 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 1,513,500 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

The information on estimated revenue, billed revenue, collected revenue and arrears of revenue submitted by the Council Secretary for the year under review and the previous year is shown below.

Source of income	Estimated Revenue	<u>2024</u>			Total Arrears as at 31 December	<u>2023</u>		
		Revenue billed	Revenue collected	Rs.		Revenue billed	Revenue collected	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	7,883,800	7,645,174	7,328,711	12,458,938	1,082,800	1,180,110	894,431	285,679
(ii) Rent	16,297,400	6,319,289	9,526,675	5,001,664	4,855,499	3,847,290	3,418,935	428,355
(iii) License fees	602,000	-	409,747	-	1,541,000	-	794,016	-
(iv) Other Revenue	1,757,750	1,593,600	773,838	2,568,937	3,000,000	4,207,220	3,881,939	325,281
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Total	26,540,950	15,558,063	18,038,971	20,029,539	10,479,299	9,234,620	8,989,321	1,039,315
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2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the Council	Recommendation
(a) Rates Taxes		
The assessed tax revenue for the year under review was Rs. 1,050,000, of which only Rs. 448,635 had been collected.	That an amount of Rs. 694,740 in arrears of assessment has been collected and that further steps will be taken to recover the assessment taxes that are yet to be collected.	The arrears of revenue must be recovered.
(b) Water tax		
The water tax revenue for the year under review was Rs. 6,562,374, of which Rs. 1,727,370 had been collected during the year, and the collection rate was less than 26 percent.	That the water charges received for the year 2024 have been recorded as outstanding water charges through the CAT 2020 accounting program, which has resulted in an increase in the outstanding charges for the year under review, and that urgent steps will be taken to rectify this situation.	Arrears of revenue should be recovered and accounted for correctly.
(c) Shop Rent		
The shop rental income for the year under review was Rs. 3,968,590, of which only Rs. 2,616,125 was collected during the year. This was a percentage of less than 66 percent.	Legal steps will be taken to resolve the issue of confirming ownership of the shops and working together with the Land Reforms Commission to obtain freehold deeds for the ownership of the lands.	The legal ownership of the lands occupied by the council must be confirmed and the arrears of rent must be recovered.

2.2.3 Court fines and Stamp duty

Audit Observation	Comments of the Council	Recommendation
Court fines of Rs. 6,003,382 and stamp duty of Rs. 2,456,437, which were due as of December 31 of the year under review, had not been collected from the Chief Secretary of the Provincial Council and other authorities.	This situation has arisen due to the delay in paying the relevant fines and stamp duties by the Uva Provincial Council.	Arrears of court fines and stamp duties should be collected.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
In the year 2023, 28 sub-vouchers with a total value of Rs. 115,776 paid in respect of 07 vouchers were not submitted for audit. Due to this, the accuracy of the payments could not be verified.	A formal internal control system has been developed to prevent irregular payments.	A formal internal control system must be developed and implemented.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure as per 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 26 percent to 57 percent in 05 revenue items and from 25 percent to 93 percent in 06 expenditure items. Accordingly, the budget had not been used as an effective control instrument.	No comments have been made.	Variability in income and expenditure should be minimized.

4.2 Environmental Problems

Audit Observation	Comments of the Council	Recommendation
In 2017, a land was acquired on lease from the Forest Conservation Department for waste disposal and two waste yards, a compost storage room and a waste screening machine were purchased and installed at a cost of Rs. 6,383,675. However, biodegradable and non-biodegradable waste was piled up in the compost yard in an irregular manner, and no formal program had been implemented to date for waste disposal.	The residents and government institutions are being informed and a method is being adopted for collecting biodegradable and non-biodegradable waste separately and for producing compost.	Garbage disposal should be carried out properly.