

Passara Pradeshiya Sabha – 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Passara 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 Net Assets , 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 Passara 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)	As at 31 st December of the year under review, the carrying value of industrial loans of Rs. 4,839,338 had not been recorded.	That work will be done to correct it next year.	The accounts must be corrected.
(b)	The expenditure of Rs. 46,666 incurred to obtain a new electricity connection for the weekly market building during the year under review had not been capitalized.	-Do-	-Do-
(c)	December of the year under reviewThe employee loan balance as of 31st was understated by Rs.11,800.	-Do-	-Do-

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
A value of Rs. 1,554,820 included in the general deposit balance as at 31st December of the year under review could not be satisfactorily examined during audit due to non-submission of deposit documents.	That arrangements will be made to submit schedules with the next year's account.	The deposit register must be updated.

1.7 Non- Compliances

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

Non-compliance with laws, rules, regulations and management decisions as follows.

Rules, Regulations Reference to etc.	Rules, Regulations Reference to etc.	Non-compliance	Comments of the Council	Recommendation
	Sri Lankan Democracy In the Socialist Republic Financial regulations			
(i)	Financial regulations 134(3)	Internal audit reports had not been submitted to the Auditor General for over 05 years.	It is planned to conduct internal audits in the future.	Internal audit reports must be submitted to the Auditor General.
(ii)	Financial regulations 775	Two mobile phones and a landline phone used by the former Chairman/Deputy Chairman had not been handed over to the Council.	Arrangements have been made to notify the council by telephone and letter to hand over the inventoried office equipment.	These assets must be dealt with in accordance with financial regulations.

2. Fincial review

2.1 Financial results

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. 31,369,364 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 21,709,927 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated revenues, billed revenues, collected revenues and outstanding revenues

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

Source of Revenue	Estimated Revenue	<u>2024</u>	<u>2024</u>	Total Arrears as at 31 December	Estimated Revenue	<u>2023</u>	<u>2023</u>	Total Arrears as at 31 December
		Revenue billed	Revenue collected			Revenue billed	Revenue collected	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	12,734,457	12,890,586	9,632,093	5,843,000	7,256,159	6,738,358	4,886,434	4,521,000
(ii) Rent	20,476,722	25,736,508	22,035,908	24,679,768	21,477,122	20,461,415	15,949,298	20,709,616
(iii) License fees	393,100	561,353	561,353	-	1,076,600	356,618	356,618	-
(iv) Other Revenue	16,060,500	24,088,249	6,529,625	23,110,731	17,171,500	24,872,931	11,158,849	21,405,622
Total	<u>49,664,779</u>	<u>63,276,696</u>	<u>38,758,979</u>	<u>53,633,499</u>	<u>46,981,381</u>	<u>52,429,322</u>	<u>32,351,199</u>	<u>46,636,238</u>

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) Arrears of water charges		
Rs. 308,586 in arrears of water charges, which had been outstanding for more than 05 years, had not been recovered or appropriate action had not been taken during the year under review.	Steps are being taken to obtain the Minister's approval regarding the writing off of long-standing water charges.	Urgent action should be taken regarding outstanding water bills.
(b) Arrears of shop rent		
(i) Rs. 20,570,716 in arrears of shop rent, which had been outstanding for more than 05 years, had not been recovered in the year under review.	Obtaining the approval of the Minister in charge of the subject for the rent to be written off from the books and taking action as per the agreement to recover the arrears of rent.	Arrears of rent should be collected.

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| (ii) | As at 31st December 2024, there was a rent arrears of Rs. 16,559,330 for the 42 stalls in the Public Market Complex, which was constructed in 2017 using the provisions of the Local Credit and Development Fund and Rs. 44,770,559 collected from the Public Market stall owners. Although the monthly loan installment and interest related to the loan obtained from the Local Credit and Development Fund for the construction of the stalls was Rs. 507,445, no steps had been taken to pay that amount or to obtain sufficient income from the stalls in the Public Market Complex. | It is planned to recover shop rent by deducting 50 percent from the original assessment, and to take legal action against shop owners who have been failing to collect arrears of shop rent for a long time. | Collecting arrears of rents as per agreements
The loan and interest received from the Local Credit and Development Fund must be paid. |
| (iii) | Although in year of 2019, as per the approval of the Governor, an agreement had been reached between the two parties for the lease of new shops for 17 old shop owners in the Public Market Complex, as of December 31 of the year under review, the shop owners were continuing their business activities without paying the non-refundable shop rent of Rs. 4,765,000 included in the agreement. | Obtaining the approval of the Minister in charge of the subject for the rents to be written off from the books and recovering the arrears of rents that will act according to agreements. | The amount due according to the agreements must be recovered. |
| (c) | Communication towers for the previous year and the year under reviewThe arrears of Rs. 26,400 had not been collected from 04 councils, and the locations of communication towers within the council area had not been surveyed and identified. | Efforts are being made to identify communication towers that are in Active condition. | A survey should be conducted and revenue and arrears should be collected. |

2.2.3 Court fines and stamps duty

Audit Observation	Comments of the Council	Recommendation
Court fines of Rs. 12,685,991 and stamp duty of Rs. 10,424,740, which were due as at 31st December of the year under review, had not been collected from the Chief Secretary of the Provincial Council and other authorities.	That steps have been taken to collect the stamp duty and court fines due.	Arrears of court fines and stamp duties should be collected.

3. Operational review

3.1 Performing the 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 Council	Recommendation
(a) Although the council is required to provide toilet facilities in all places where the public congregate in accordance with Section 85(b) of the Pradeshiya Sabha Act No. 15 of 1987, both the women's and men's toilets located in the council's market area remained unclean due to lack of proper maintenance, and a sanitary toilet system had not been constructed.	A public toilet systemPlans are being made for construction, and a temporary toilet and latrines system has been prepared.	Public utility services must be maintained in accordance with Section 85(b) of the Pradeshiya Sabha Act No. 15 of 1987.
(b) The water treatment project building, which was completed under the Pura Neguma project funds and handed over to the council in the year under review, had shortcomings such as the absence of a drainage system to discharge water after treatment, the malfunctioning of the water pumping station, the lack of training on the quantities of chemicals used for water treatment, the insufficient capacity of the water tanks to store the piped water supply brought from the Millabedda and Puhulbedda reservoirs, and the pipe system installed at the treatment center breaking at various places. Due to these reasons, the residents of the area had not received proper benefit from the project.	Plans have been made to maintain the water treatment plant and provide training and consulting services to the staff.	Steps should be taken to provide clean drinking water to the public.
(c) The access road to the compost yard, about a kilometer long, had not been developed to date, and due to the lack of a permanent water supply at the compost yard, it had become a difficult task to use water brought in by bowser to wash machines and vehicles and to wash non-biodegradable waste. In addition, non-biodegradable waste, which had been accumulated for over 10 years, had been dumped in pits in the yard and piled up in places.	Since it would cost a lot of money to develop the road depending on the elevation of the land, it is difficult to bear such an expense.It is planned to construct the access road by raising funds from other projects.	Garbage should be disposed of properly.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Although the land where the weekly market of the Pradeshiya Sabha had been held since 1965 had an area of 01 acre 02 roods 7.3 perches as per survey plan number 29232 conducted on 07 September 1971, according to the survey conducted on 24 January 2022, the area of that land was only 03 roods 23 perches. According to exsisting old documents, out of the land occupied by the council, 02 roods and 24.3 perches had been illegally occupied by outside parties. Despite the passage of 50 years, no steps had been taken to survey the lands owned by the council and ascertain the ownership.	A request has been made to the Land Reforms Commission to survey these lands and hand them over to the Pradeshiya Sabha, and the acquisition of these lands has been delayed for a long time due to reasons outside the purview of the Pradeshiya Sabha.	The ownership of the lands occupied by the council must be clarified.
(b)	On 16th June 1980, the Land Reforms Commission had handed over a piece of land measuring 02 roods from the Gonakelle Estate to the Passara Village Council in writing for the construction of 02 public toilets at the Maussagolla Ambalama junction. By the year under review, adequate road facilities had not been provided to access the toilets that had been constructed. On the said piece of land Various parties had constructed permanent buildings without permission.	Requests have been made to the Land Reforms Commission to hand over this land to the council, but there has been no positive response.	-Do-

3.3 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The new shopping complex building, which was completed and handed over to the council in 2023 with a financial allocation of Rs. 26,079,033 from the Local Development Support Project (LDSP) last year, was at risk of collapse. As a result, the ground at the site of the building had been severely damaged, the walls and tiles inside had burst, and a glass door had completely broken. Although the National Building Research Organization's Land Suitability Certificate had been obtained on 28 April 2022 before the construction of the building, the relevant letter had stated that if the building was constructed in accordance with Special Conditions No. 04 mentioned in the certificate, the relevant plans should be submitted to the National Building Research Organization (NBRO) and recommendations related to the plans should be obtained, but due to the management's lack of attention to the recommendation, such a risk had to be faced.	The LDSP project staff of the Department of Local Government has carried out all the monitoring activities and plans have been made to take further action after obtaining an inspection report from the Central Engineering Consultancy Bureau (CECB) regarding the works related to the damage caused by the landslide.	The National Building Research Organization's land suitability certificate as well as the relevant plans should be submitted to that organization, recommendations and advice should be obtained, and construction should be carried out.
(b)	The Employee Trust Fund contribution amount of Rs. 768,976 had not been paid for 36 employees who were employed daily from 01st January 2016 to 31st January 2023. The council had to pay a surcharge of Rs. 374,909 for the delay in payment of this contribution. The responsible parties had not been identified and appropriate action had not been taken regarding the payment of the surcharge.	It was stated that the contributions had not been paid because the council did not have sufficient self-generated income and had not been collected from employees, and that arrangements had been made to pay the full amount by March 25, 2024.	Steps should be taken to pay employee contribution funds on time., Surcharges should be recovered from the relevant responsible parties.

04. Accountability and Good Governance

Budgetary Control

Audit Observation	Comments of the Council	Recommendation
Estimated income and expenditure according to the budget prepared by the Pradeshiya Sabha for the year under review. When comparing the actual income and expenditure for the year, there was a variation of 22 percent to 104 percent in 04 income items and 29 percent to 59 percent in 03 expenditure items. Accordingly, the budget document had not been used as an effective control instrument.	At the end of 2024, there was a remain of provision due to the electricity, vehicle insurance and management of vehicle repairs.	Variability in income and expenditure should be minimized.