

Pelmadulla Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pelmadulla Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 Statement of Financial Operations, Cash Flow Statement, Statement of changes in equity 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 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 Pelmadulla Pradeshiya Sabha as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the financial statement based 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'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 include specific provisions for following requirements.

- 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.
- 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) Due to the fact that the value of 14 lands, Rs. 3,375,935, had not been capitalized, the Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated by that value.	Steps will be taken to account for it in the future.	Non-current asset values must be accurately accounted.
(b) Three lands, totaling 813 perches, belonging to the sabha had not been assessed and accounted.	That step are being taken to obtain ownership of the lands.	All assets must be properly accounted.
(c) Due to the non-capitalization of the value of 08 buildings amounting to Rs. 78,412,117, the Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated by that value.	That steps will be taken to correct this when preparing the accounts for the coming year.	The value of the building must be accurately accounted.
(d) The Ketethenna Waste Management Center belonging to the Pradeshiya Sabha had not been assessed and accounted.	That an assessment of the value will be obtained and action will be taken to account for it.	All assets must be properly accounted.
(e) Due to the under capitalization of the value of 02 industries by Rs. 1,694,575, the Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated by that value.	Steps will be taken to correct the errors when preparing the accounts for the coming year.	Industrial values must be accurately accounted.

(f)	Since Rs. 2,468,131 spent on the development of the sabha building was not capitalized, the Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated by that value.	Steps will be taken to correct the errors when preparing the accounts for the coming year.	Development costs must be accurately accounted.
(g)	Due to the understatement of the general warehouse stock by Rs. 288,915, the current assets and operating surplus were understated by that amount.	Steps will be taken to correct the errors when preparing the accounts for the coming year.	Stock values must be accurately accounted.
(h)	Due to the non-accounting of the value of the remaining gas stock in the crematorium, the current assets and operating surplus were understated by Rs. 140,736.	Steps will be taken to correct the errors when preparing the accounts for the coming year.	Stock values must be accurately accounted.
(i)	Current assets and operating surplus were understated by Rs. 183,690 due to under-accounting of assessment billings in the year under review.	Steps will be taken to correct the errors when preparing the accounts for the coming year.	Income must be accounted for correctly.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
In relation to 08 accounting subjects, there was a difference of Rs. 58,107,948 between the balances as per the financial statements and the balances as per the supporting documents at the end of the year under review.	Instructions were given to the subject officers to rectify these situations as much as possible in the future.	The reasons for the changes should be identified and corrected.

1.7 Non- Compliances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulation 571	Various overdue deposits amounting to Rs. 156,054 relating to the period from 2007 to 2022 had not been settled.	That all overdue deposits will be taken into account as appropriate.	Financial regulations must be followed.

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. 17,448,997 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 60,113 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 Secretary, the following is the information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year.

Source of Revenue	2024				2023			
	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	7,107,319	7,486,076	9,216,040	4,423,406	6,697,910	7,156,137	8,391,531	5,677,960
Rent	4,345,000	3,714,970	3,526,473	1,923,567	4,572,640	3,828,250	3,730,008	1,719,100
License fees	3,775,350	3,348,997	3,348,997	-	2,527,700	3,516,277	3,515,277	-
Other Revenue	<u>42,248,611</u>	<u>39,285,603</u>	<u>39,061,157</u>	<u>341,421</u>	<u>860,000</u>	<u>1,446,736</u>	<u>1,378,708</u>	<u>147,754</u>
	<u>57,476,280</u>	<u>53,835,646</u>	<u>55,152,667</u>	<u>6,688,394</u>	<u>14,658,250</u>	<u>15,947,400</u>	<u>17,015,524</u>	<u>7,544,814</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) The outstanding assessment balance of Rs. 2,110,104 as at the end of the year under review included 431 assessment units with a total of Rs. 573,030 outstanding for more than 05 years.	Preliminary notices have been issued to commence the process of prohibiting property to recover outstanding amounts.	Action should be taken to collect the outstanding revenue.
(b) The outstanding acreage tax balance of Rs. 190,394 as at the end of the year under review included Rs. 170,354 due from 185 units that had been in existence for more than 03 years.	An investigation is being conducted to resolve the issues regarding the levy of acreage taxes.	Steps should be taken to settle outstanding acreage taxes.
(c) Rent of arrears in the fish shop of Rs. 286,966 relating to the year under	Legal action has been taken to recover the arrears.	Action should be taken to collect the

review and the previous 03 years had not been recovered during the year under review.

outstanding revenue.

- (d) The outstanding fees of Rs. 2,290,600 relating to 36 three-wheeler parking spaces had not been collected by the end of the year under review.

This situation has arisen due to the lack of sufficient space at the three-wheeler parking lots and the fact that those lots do not belong to the Pradeshiya Sabha. Action will be taken to remove the recorded outstanding balance from the register under an approval.

Necessary steps should be taken to recover the revenue due to the sabha.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although the Assistant Commissioner of Local Government had recommended on 26th August 2024 to collect Rs. 625,917 from the then-chairmen based on the relevant investigation report to resolve the long-standing problems in bank reconciliation, those recommendations had not been implemented by the end of the year under review.	Action will be taken once approval is received for the amount of money decided to be collected.	Action should be taken to implement the relevant recommendations.
(b) Detailed schedules and supporting documents related to 07 accounting subjects totaling Rs. 118,687,311 had not been updated.	That the schedules are being prepared and that steps are being taken to check and resolve them.	Fixed asset registers should be maintained up to date and relevant schedules should be prepared.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
A person who had obtained a license to start a gem mine near the land where the sabha's crematorium is located had dug a tunnel through the mine and entered the crematorium land and obtained the illam soil. Despite being	The unauthorized occupants of the land were identified through an on-site inspection, and a letter has been sent to the Local Government Commissioner requesting him	An investigation should be conducted into the lack of proper supervision of gem mines and steps

aware of the existence of such a risk, the sabha had not discovered it until he entered the land through the tunnel and obtained the illam soil, and after washing and cleaning the illam soil collected at the time of the inspection, 78 pieces of gemstones found were sealed and placed in the custody of the licensee under the authority of the National Gem and Jewellery Authority. Although the survey work had been carried out on this land in the year 2023, the boundaries had not been prepared, and 05 unauthorized families had built permanent houses on that land for a long time.

to provide instructions on the next steps to be taken. In addition, a letter has been sent to the Pelmadulla Divisional Secretary requesting him to conduct a survey through the Government Survey Department to ensure the safety of the land.

should be taken to ensure the security of the assets owned by the sabha.

3.3 Defects in Contract Administration

Audit Observation

The contractor had abandoned the work of providing infrastructure facilities for visiting Kirindi Ella, which had been started with an estimated provision of Rs. 5,000,000 in the year under review, after only Rs. 1,618,149 had been completed. The contractor had unilaterally abandoned the work and had recommended bills for payment of the value of the work completed without taking any action in this regard. However, no attention had been paid to appropriate alternative measures for completing the remaining work of the work.

Comments of the Council

Although the work on the initial part of the project has been completed, the work on the lower part has not been completed. Since the work was supposed to be completed by 30th of November 2024, the value of the bills completed by that time has been recommended.

Recommendation

Contract administration should be streamlined and necessary further steps should be taken to complete this industry.

3.4 Human Resources Management

Audit Observation

The loan balance of Rs. 94,584 due from a member and two officers of the sabha had not been recovered by the end of the year under review.

Comments of the Council

An investigation is underway regarding the loan balance.

Recommendation

ction should be taken to settle the loan balance

3.5 Assets Management

Vehicle Utilization

Audit Observation

Although the loss incurred due to the accident on 3rd of June 2024, involving a backhoe loader owned by the sabha, was Rs. 252,002, the insurance company had reimbursed only Rs. 108,184. Accordingly, the remaining loss of Rs. 143,818 had not been recovered from the responsible parties.

Comments of the Council

An investigation is underway into this matter.

Recommendation

Investigations should be expedited and the responsible parties identified.