

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Lunugala Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial Operations, cash flow statement and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 Subsection 172 (1) of the Pradeshiya Sabhas Act No. 15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 accompanying financial statements give a true and fair view of the financial position of the Lunugala Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Standards, 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 exercise 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 the Pradeshiya Sabha's 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 Pradeshiya Sabha;
- Whether the Pradeshiya Sabha 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 Council	Recommendation
(a) Although the value had been credited to the machinery account in rectifying the error of overstating the value of machines and machinery by Rs.192,856 in the previous year, the credit note related to that had not been accounted.	The error occurred in the accumulated fund account will be rectified.	Accounts should be prepared correctly.
(b) The tender rental income amounting to Rs.250,881 received in the previous year in relation to the year under review had not been indicated in the financial statements.	-Do-	-Do-
(c) In the rectification of the error of not accounting the other revenue amounting to Rs.1,502,868 of the previous year in the year under review, it had been credited only to the Accumulated Fund.	Action will be taken to rectify the error made.	Financial statements should be prepared accurately.
(d) The retention amount of Akiriya Village Water Project had been Rs.60,438 according to the creditor register as at 31 December of the year under review, it had been indicated as Rs.153,944 in the statement of financial position.	-Do-	-Do-
(e) The estimated value amounting to Rs.4,658,596 of 08 industries, of which the finalization of work had not been confirmed in relation to the years of 2021 and 2022, had been accounted as creditors.	Action will be taken to eliminate it from the register of creditors.	-Do-
(f) Even though the retention amount for the purchases made to the solid waste management centre in the year 2021 had been Rs.48,500, it had been overstated by Rs.400,000 and indicated as Rs.448,500 in the financial statements.	Action will be taken to rectify the error.	Financial statements should be prepared accurately.

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| (g) Even though the reimbursement of the bills related to the agreement entered in to in the year 2021 under the Urban Local Government Strengthening Programme had been made in the year under review, a sum of Rs. 112,912 had been indicated as further receivables in the financial statements. | Action will be taken to eliminate the reimbursed amount from the debtor register. | The amount reimbursed should be eliminated from the debtor register and the registers should be updated. |
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1.6.2 Written Evidence not made Available for Audit

Audit Observation	Comments of the Council	Recommendation
(a) An updated stock register had not been maintained for consumables including stationery, water equipment and fuel amounting to Rs.1,030,248 as at 31 December of the year under review.	Officers were instructed to balance.	Schedules should be updated and submitted with the financial statements.
(b) Detailed schedules had not been submitted for the general deposit balance amounting to Rs.6,531,373 as at 31 December of the year under review.	Officers were instructed to update.	-Do-

1.7 Non-compliance

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

Instances of non-compliance to laws, rules, regulations and management decisions are mentioned below.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Council	Recommendation
The Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Inquiries had been conducted in relation to the accidents that had occurred to 03 vehicles owned by the Council in the years of 2018 and 2021 and full reports had not been submitted to the Auditor General.	Action will be taken to submit full report to the audit.	Full reports related to the accidents should be submitted in the prescribed time.
Financial Regulations 104 (4)			

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue of the Council that had exceeded the recurrent expenditure for the year ended 31 December in the year under review had been Rs.1,513,500 and in corresponding to that, revenue of the Council that had exceeded the recurrent expenditure in the previous year had been Rs. 13,972,065.

2.2 Revenue Administration

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

According to the information presented by the Secretary of the Council, the information related to the estimated revenue, billed revenue, collected revenue and revenue arrears related to the year under review and to the previous year are mentioned below.

Revenue Source	2023				2022			
	Estimated Revenue Rs.	Billed Revenue Rs.	Collected Revenue Rs.	Total Deficit as at 31 December Rs.	Estimated Revenue Rs.	Billed Revenue Rs.	Collected Revenue Rs.	Total Deficit as at 31 December Rs.
(i) Rates and Taxes	1,082,800	1,180,110	894,431	285,679	1,082,800	1,180,110	717,725	462,385
(ii) Rents	4,855,499	3,847,290	3,418,935	428,355	7,409,700	3,207,707	2,018,886	1,188,821
(iii) License Charges	1,541,000	-	794,016	-	1,186,000	-	840,634	(840,634)
(iv) Other Revenue	3,000,000	4,207,220	3,881,939	325,281	5,500,000	4,384,685	1,124,595	3,260,090
Total	10,479,299	9,234,620	8,989,321	1,039,315	15,178,500	8,772,502	4,701,840	4,070,662

2.2.2 Performance in the Collection of Revenue

The observations regarding the performance in the collection of revenue of the Council are mentioned below.

Audit Observation	Comments of the Council	Recommendation
Court fines amounting to Rs.3,784,071 and stamp duty amounting to Rs.1,029,154 receivable as at 31 December of the year under review had not been brought.	Written requests have been made.	Arrears revenue should be brought.

3. Operational Review

3.1 Performance of Functions Assigned by the Act

The following matters were observed regarding the performance of the duties by the Council charged with the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people and all amenities within such area under Section 3 of the Pradeshiya Sabhas Act.

Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
(a) A large amount of non-biodegradable waste had been dumped openly in the premises of the Solid Waste Management Centre itself after segregating waste daily as per Section 23 (b) of the National Environment Act, No. 47 of 1980.	Non-biodegradable waste has been deposited at a landfill site of the waste yard.	Garbage should be disposed of properly.
(b) A land had been obtained from the Department of Forest Conservation on the lease basis in the year 2017 for the disposal of waste and two garbage yards, a compost manure storage room and a strainer machine had been purchased and installed at a cost of Rs.6,383,675. The project had not been implemented due to the inability of obtaining the three-phase electricity connection to the waste yard.	Since the access road to the garbage yard had been severely dilapidated, it is not possible to transport the generator and the relevant activities will be carried out as soon as the road is restored.	Achieving the desired objectives of the project should be done expeditiously.
(c) One thousand one hundred and forty-three (1143) water consumers had met their drinking water needs through 05 water projects maintained by the Pradeshiya Sabha. The suitability of the water samples of one water project had been tested in one instance during the year under review, and water samples of the other water projects had not been tested.	Information on finance and performance will be submitted.	Water requirements should be met by paying attention to the sanitation of the people.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A 20 KVA generator had been purchased at a cost of Rs.4,312,500 with the objective of fulfilling the electricity requirement in the Suriyagoda garbage yard and in the event of a power outage in the multi-purpose building. The Pradeshiya Sabha had purchased the generator without conducting a feasibility study on the cost of transporting the generator from time to time using a difficult road to the garbage yard, which is located 08 kilometres away from the Pradeshiya Sabha and the possibility of earning income by renting the generator.	The generator has been used based on the need of the area.	Assets should be purchased by considering the need, cost and maintenance of the assets.
(b) Equipment worth Rs. 650,904 had been purchased in the year under review to partition the hall of the first floor of the kitchen constructed at the rear side of the multi-purpose building, into 03 rooms and to rent out the rooms, and the equipment purchased had been stored in the office without using them for the relevant functions.	Equipment has been purchased as permission has not been granted by the LDSP project to carry out any construction.	Funds should be utilized in a manner that fulfills the objectives of the project.
(c) Although prices had been obtained for sticking the steel letters of the name board on the stones of the wall according to the specifications submitted for setting up the main name board of the multi-purpose building, the letters had been pasted using 06 rows of box bars across the wall in a way that it had not been complied with the specifications. The contracted amount of Rs.350,000 had been paid for this.	The letters have been fixed with the help of aluminium belts without drilling, as the stones are loosened by heavy shock during the fixing of stones.	Functions should be carried out as per the specifications.
(d) One hundred (100) raincoats had been purchased by spending Rs.445,500 from the fund of the Local Development Support Project (LDSP). Although the maximum retail price of one unit as mentioned in the labels of 47 raincoats	Raincoats had been mistakenly placed in another package during the packaging of raincoats.	The process of purchasing should be carried out in a transparent manner.

stored in the warehouse had been Rs.3,990, a sum of Rs. 46,500 had been overpaid as an amount of Rs.4,455 each had been paid.

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| (e) | Janathapura multi-purpose building had been constructed at a cost of Rs.4,459,042 with the financial allocation of the Local Development Support Project (LDSP) in the year 2020 without settling the ownership of the land, and electricity connection had also been obtained at a cost of Rs.100,294 in the year under review. Revenue had not been generated from the multi-purpose building even by February 2024. | Two (02) shop rooms have been tendered and the rest of the shop rooms have been planned to be tendered, and it has been requested from the Lunugala Regional Secretariat to settle the ownership of the land. | Provision should be utilized for a productive task. |
| (f) | A laboratory for testing water samples had been constructed with the financial contribution of the Ministry of Water Supply under the Water Supply and Sanitation Improvement Project, and it had been transferred to the Pradeshiya Sabha. Even though a laboratory technician had been recruited on casual basis in the year 2021 with an allowance of Rs.2,500 per day and a laboratory assistant had been recruited on the basis of paying the salary from the fund of the Council in the year 2023 for that purpose, these two had tested only the water samples of the water supply centre in the city. | At present, water sample testing of 05 water schemes is being carried out. | The objectives of setting up the water sample laboratory should be fulfilled. |

3.3 Asset Management

Audit Observation	Comments of the Council	Recommendation
(a) The ownership of 03 tractors and 02 tractor-tailors used by the Council had not been transferred to the Council.	Action is being taken to transfer.	The ownership of the vehicles of the Council should be transferred.
(b) One of the 03 DELL desktop computers received from a non-governmental organization had been missing.	Legal action has been taken.	Assets belonging to the Council should be taken back to the custody of the Council.