

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lahugala Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Balance Sheet as at 31 December 2023, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. My comments and observations which I consider should be report to parliament appear in this report.

Opinion 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 Lahugala 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 Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
Rs.1,209,902, the balance of the investment account as on the opening date of the year under review was debited to the account of contribution to income from capital investment by 27 journal entries without identifying the reasons or obtaining approval.	With the approval of the Secretary, the capital contribution to the revenue contribution account has been debited. That this will be corrected in the future.	Should be properly accounted for.

1.6.2 Absence of written evidence for audit

Subject	Amount Rs.	Audit evidence not provided	Comments of the Sabha	Recommendation
(a) Land and buildings	87,152,217	(i) Land Deeds (ii) Survey reports (iii) Updated Fixed Asset Register	That will be done to obtain land deeds and survey reports and to update fixed asset registers in the future.	Evidence must be submitted to confirm the account balances shown in the financial statements.
(b) Machinery and equipment	18,720,533	Fixed asset register updated with value	That will be corrected in the future.	- Do -
(c) Motor Vehicles and carts	27,220,000			
(d) Furniture and Fittings	7,385,893			

1.7 Non-Compliance

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

Below are the incidents where laws, rules, regulations and management decisions had not been not complied with.

With reference to laws , rules and regulations and management decisions	Non-compliance	Comment of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
(i) Section 128	The ownership of the lands used by the Pradeshiya Sabha had not been taken over in the name of the Pradeshiya Sabha.	That the ownership of land will be taken over in the future.	The provisions of the Local Council Act should be followed.
(ii) Section 134	There was no effort to identify new sources of income by timely identifying the developed areas in the jurisdiction of the Pradeshiya Sabha.	That requests have been made to the Assistant Commissioner of Local Government but have not been approved so far.	- Do -
(b) The Employees' Provident Fund (EPF) Act No. 15 of 1958 and the Employees' Trust Fund (ETF) Act of 1980	Although contributions should be calculated based on the gross salary, due to the calculation of contributions based on the basic salary by the Pradeshiya Sabha, the employees' provident fund of Rs.23,908 and the trustee fund of Rs.3,586 were calculated less in relation to the year under review and the money was sent to the funds.	From the year 2024, the contributions will be calculated based on the gross salary and forwarded to the relevant institutions.	Actions should be done according to the Act.
(c) Pradeshiya Sabhas (Finance and Administration) Rules, 1988			
(i) Rule 5(12).	No steps were taken to obtain adequate guarantees from the officers responsible for cash and storage.	Officials have been informed in writing to obtain guarantees and that they will be corrected in the future.	Financial and administrative rules should be followed.
(ii) Rule 59	At the beginning of every year, the income inspector of the council should prepare a list of trade businesses and industries	Since there is no income inspector for several years, it is not possible to	- Do -

1.7.2

		in the jurisdiction and submit it to the secretary of the council before March 31, but it was not done accordingly.	conduct this survey.	
	(iii) Rule 218	All the lands and buildings owned by the Sabha should be inspected once every year, but it was not done accordingly.	That will be corrected in the future.	- Do -
(d)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
	(i) Financial Regulations 371	As of December 31 of the year under review, the council had information about the officials who had received advances of Rs.83,500 for a period of 10 years to 25 years, but without settling the balance, they were continuously brought forward in the financial statements.	The officials who received the advance money have been informed in writing and that they will recover the money during this year.	Advances should be cleared without delay.
	(ii) Financial Regulation 571 (1), (2), (3)	Necessary measures had not been taken to release the over two years deposit balances worth Rs. 1,184,495 to the relevant parties or to collect the income as per the financial regulations.	Since there is no clear information, it was not credited to the income and this year money will be taken into the income as per the regulations.	Actions should be done with according to financial regulations.
(e)	Paragraph 3 of Public Administration Circular No. 30/2016 dated 29 December 2016	Vehicle fuel combustion inspection should be done every 12 months or after driving 25,000 kilometers, but this was not done in the case of Sabha owned vehicles.	Since this work could not be done due to lack of employee vacancies and financial situation, it will be corrected in the future.	Actions should be done as per the provisions of the circular.

Non-compliance with Tax Requirements

Audit Observation	Comments of the Sabha	Recommendation
From the year 1987 to the year 2023, the stamp duty value of Rs.106,002 collected by the Sabha had been kept in the public deposit account without sending it to the Inland Revenue Department.	That it will be settled this year in discussion with the Inland Revenue Department.	Arrangements should be made to send the money to the Inland Revenue Department.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2023 amounted to Rs. 1,325,408 as compared with the excess of recurrent expenditure over revenue amounted to Rs. 703,641 in the preceding year.

2.2 Income Administration

Audit Observation	Comment of the Sabha	Recommendation
The sabha had not taken steps to settle 05 balances of Rs. 116,935 which were continuously brought forward in the bank reconciliation reports related to two bank accounts belonging to the Pradeshiya Sabha	These values have been come around for many years and will be corrected in the future.	These balances should be identified and settled.

2.3 Income Administration

2.3.1 Estimated Revenues, Billed Revenues, Collected Revenues and Accrued Revenues

According to the information presented by the chairman, the following is the information about estimated income, billed income, collected income and arrears related to the year under review and the previous year.

Source of income	2023				2022			
	Estimated Income	Billed Revenue	Accumulated revenue	Total deficit as on 31 December	Estimated Income	Billed Revenue	Accumulated revenue	Total deficit as on 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
i. Assessment taxes and taxes	-	-	-	-	-	-	-	-
ii. Rental	2,941,000	1,601,612	1,666,912	53,370	1,891,000	490,512	350,663	118,670
iii. License fees	520,000	214,900	214,900	26,563	425,000	157,500	157,500	26,563
iv. Other income	521,000	380,349	380,349	-	700,000	246,264	246,264	-
Total	<u>3,982,000</u>	<u>2,196,861</u>	<u>2,262,161</u>	<u>79,933</u>	<u>3,016,000</u>	<u>894,276</u>	<u>754,427</u>	<u>145,233</u>

3. Operational Review

3.1 Performance of functions assigned by the Act

Audit Observation	Comment of the Sabha	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, matters to be enacted by-laws had not been identified and enacted, and by 31	That in the future, the necessary measures will be taken to enact by-laws.	By-laws should be legalized.

December 2023, only 05 by-laws had been enacted.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
As of 31 December of the year under review, the secretary had not taken steps to generate income by investing in sources that can generate excess cash income, with keeping enough money to cover recurring expenses from the cash save of Rs 5,000,000 in the bank accounts of the Sabha	That in this year an amount of Rs.3,000,000 will be put in fixed deposits.	Surplus money should be invested and income earned.

3.3 Asset Management

Audit Observation	Comment of the Sabha	Recommendation
(a) Although the value of the buildings belonging to the pradeshiya sabha had been accounted for, the value of the land on which those buildings were located had not been identified and accounted for.	That the value of the lands will be identified in the future.	Land value should be identified and accounted for.
(b) 13 vehicles of the sabha remained idle due to not taking necessary measures to repair and re-use or dispose of the vehicles that cannot be repaired properly.	That there are delays in repairs as it is a low-income sabha and does not have the necessary provision for repairs.	Vehicles should be repaired and re-used or non-repairable vehicles should be auctioned.
(c) Necessary measures had not been taken to take over the ownership of 15 vehicles used by the council in the name of the Sabha.	That the vehicles will be taken over in the future.	Ownership of vehicles should be transferred in the name of the Sabha.

3.4 Procurement Management

Audit Observation	Comment of the Sabha	Recommendation
(a) During the reviewed year, 23 garbage bins had been purchased at a cost of Rs. 550,000 received for the council under the Provincial Development Specific Grant (PSDG) for the proper disposal of waste in tourist areas, and since more than 06 months have passed, they have not been placed, the purpose of this project remained unfulfilled.	That they will be established in the proper places within the next two weeks.	It should be established and used where necessary.

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| (b) | In relation to the purchase of furniture and kitchen equipment for the rest house in Panama under the regional development assistance project, the technical evaluation Committee and the Procurement Committee took into account only the minimum price of the goods in the price evaluation and did not confirm whether the goods were of the expected quality when accepting the goods. It was confirmed during the physical verification that 33 beds worth Rs.1,044,100 were not of the required standard with cracks and damages. | No defects were found at the time of receipt of the goods. There have been changes due to weather conditions. This can only happen in a few beds and all other beds are in good condition. | The quality of wood products should be checked before purchasing. |
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3.5 Human Resource Management

Audit Observation

Comment of the Sabha

Recommendation

By the end of the year under review, it was observed that 15 posts in the Sabha were vacant and due to this, problems had arisen in maintaining the daily duties of the Sabha.

The matters is accepted

Necessary action should be taken to fill up the vacancies.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

Comment of the Sabha

Recommendation

In terms of Section 40 of the National Audit Act No. 19 of 2018 and 133(1) of the Financial Regulation, recommendations had not developed by the internal audit to improve corporate operational processes and enhance performance.

That this will be done in the future.

According to the Act, recommendations for improving organizational operational processes and increasing performance should be prepared and implemented.

4.2 Audit Committee

Audit Observation

Comment of the Sabha

Recommendation

In accordance with the Circular No. DMA/01-2019 dated 12 January 2019 of the Department of Management Audit on Internal Audit Guidelines, the Sabha did not establish Audit and Management Committees and did not hold committee meetings during the year under review.

That these committee meetings will be held from the year 2024.

Steps should be taken to initiate procedures and hold meetings for the Audit and Management Committee.

4.3 Environmental Problems

Audit Observation	Comment of the Sabha	Recommendation
Although Pradeshiya Sabha must obtain a valid environmental permit from the Central Environment Authority under Environmental Act No. 47 of 1980 as amended by Acts No. 56 of 1988 and No. 53 of 2000 for the solid waste management center run at 03 locations namely Panama, Lahugala and Hulannuge, the Sabha Solid waste management centers had been run without an environmental permit.	Environmental protection permits will be obtain In the near future.	A valid environmental permit must be obtained.

4.4 Sustainable Development Goals

Audit Observation	Comment of the Sabha	Recommendation
According to the Sustainable Development Act No. 19 of 2017, the necessary indication for achieving sustainable development goals and targets were prepared and data related to them was collected and records were not maintained on reaching the sustainable development goals.	Accordingly, it was noted to deal with in the future.	According to the circular, the Sabha should take actions for achieving the sustainable development goals and objectives.