

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Palagala Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of changes in Equity / Net Assets, 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 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.

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 Palagala Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

### **1.2 Basis for Qualified Opinion**

I expressed qualified opinion 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 Sri Lanka Public Sector Accounting Standards for Local Authorities, 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 skepticism 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 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 Sabha	Recommendation
(a) Fixed assets amounting to Rs.4,208,656 had been accounted for but the capital grants related to it had not been accounted for so the capital grants had decreased by Rs.4,208,656.	Accepted	Correct value should be accounted for.
(b) Due to the value of the closing stock of bakery materials amounting to Rs.119,838 at the end of the year under review had been debited to the Accumulated Fund instead of debiting the Bakery Ingredients Sales Account, the comprehensive income in the year under review had increased by that amount.	-Do-	-Do-
(c) The water bottles cost of sales amount of Rs.97,724, stationery expenses of Rs.12,600 and electricity stock expenses of Rs.4,448 were not accounted for in the year under review in the statement of comprehensive income, so the comprehensive income had decreased from those values.	That the error occurred because the value of finished bottles and empty bottles were taken together and accounted for.	-Do-
(d) Because a sum of Rs.63,325 had not been accounted for in the statement of comprehensive income and in the concrete production trading and profit account in the year under review, so the comprehensive income was understated by that amount.	Accepted	-Do-

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
(a) Regarding 02 items, according to the asset and liability statement and ledger of the reviewed year, the value was Rs.11,893,503, but according to the schedule, the value was Rs.11,234,111, therefore a difference of Rs.659,392 was observed.	Action will be taken to rectify.	Schedules should be compared with corresponding records.
(b) Regarding 3 items, according to the cash flow statement of the reviewed year, the value was Rs.17,994,249, but according to the notes, the value was Rs.18,549,872, therefore a difference of Rs.555,623 was observed.	-Do-	-Do-

### 1.6.3 Lack of Written Evidences for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-presentation of details for Rs.425,928 of administration and selling expenses identified in the consolidated production and profit and loss account of the drinking water bottle and water project, it could not be satisfactorily vouched in the audit.	The documents are not maintained to identify the expenses separately.	Confirmations must be submitted.

## 2. Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.2,825,621 as against with the excess of expenditure over revenue amounted to Rs.6,674,235 in the preceding year.

### 2.2 Financial Control

Audit Observation	Comments of the Sabha	Recommendation
Stamp duty amounting to Rs.2,259,150 and court fines amounting to Rs.6,890,513 received in the year 2023, had been used to pay the wages of casual workers instead of using in income generating projects.	Accepted	This money should be used for income generating projects.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

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

Source of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,582,470	1,772,920	1,743,040	29,880	1,559,450	1,632,460	1,648,660	-
(ii) Rent	2,553,893	2,915,370	2,379,300	1,926,870	2,064,960	2,137,903	2,257,953	1,390,800
(iii) License Fee	271,220	293,890	293,890	-	306,995	267,175	268,175	-
(iv) Other Revenue	39,463,360	15,997,115	11,211,463	12,921,891	34,132,300	13,605,759	10,308,586	8,136,239
	43,870,943	20,979,295	15,627,693	14,878,641	38,063,705	17,643,297	14,483,374	9,527,039

### 2.3.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

Audit Observation	Comments of the Sabha	Recommendation
<b>(a) Rent</b>		
(i) A sum of Rs.1,869,450 of rent receivable for the lease of butcher stalls for the years 2019-2023 has not been recovered.	Accepted	Action should be taken to recover arrears income.
(ii) A sum of Rs.755,100 to be receivable for the renting of vehicles in the year 2021 belonging to the Sabha was not recovered even in the year 2023.	Action will be taken to recover	-Do-
<b>(b) Other Revenue</b>		
(i) A sum of Rs.688,768 due to the Sabha in relation to the years 2021 and 2022 for various supplies had not been recovered in the year 2023.	That the receivable amount has been referred to the Conciliation Board.	-Do-

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| (ii) | Court fines amounting to Rs.10,887,387 and stamp duty amounting to Rs.525,000 were due on 31 December 2023 from the Chief Secretary of the Provincial Council and other authorities. | That letters have been sent requesting stamp duty information for the years 2022 and 2023. | Action should be taken to recover |
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### 3. Operational Review

#### 3.1 Performance of functions assigned by the Act

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, 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, are mentioned below.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
By-laws could have been enacted to fulfill 30 main matters under Section 126 of the Pradeshiya Sabha Act, but no by-laws had been enacted for those matters by 31 December 2023.	That the standard by-laws imposed by the Provincial Council have been adopted.	Action should be taken to enact by-laws.

#### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Constructions had been carried out without the approval of the survey plans and road lines of the Pradeshiya Sabha area and no officer had been appointed by the council to do duties for that.	Accepted	An officer should be appointed and perform the relevant duties.
(b) The Sabha had not been taken action to lease the 02 acres of land with a fertile coconut plantation adjacent to the Pabbogama library or to employ the employees of the Sabha to maintain it and get income and due to the fact that the fence and gates of the land were not prepared, the people of the city kept dumping the garbage on that land.	-Do-	Necessary activities should be done to get income and the security of the land should be ensured.

### 3.3 Idle or Under Utilized Property, Plant and Equipment

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	The assets purchased spending a sum of Rs.9,236,000 under the LDSP project remained idle in the year 2023.	Not commented	Action should be taken to utilize.
(b)	The multi-purpose building and the well, which had been built at a cost of Rs.19,741,026 in the Higuruwewa area in the year 2022, remained idle.	-Do-	-Do-
(c)	water tanks, water tank holding towers, constructed tube well, and a stock of water bottles worth Rs.2,676,082 and labels worth Rs.88,233 purchased to start a water bottling project in July 2022, remained idle.	-Do-	-Do-

### 3.4 Assets Management

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	02 three-wheelers and a tractor had been parked without being repaired and put to use.	Accepted	Action should be taken to repair and put to use.
(b)	No action was taken in the year 2023 to dispose of 02 vehicles which had been out of use for since 01 year to more than 05 years.	That one of these vehicles will be handed over to the Chief Secretary and the ownership of the other vehicle will be transferred to the Sabha and disposed of.	Action should be taken to disposed of.

### 3.5 Procurement Management

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
	The technical evaluation committee had recommended that the coconut oil extractor offered by a private company should be purchased for Rs.375,000, but the procurement committee decided to purchase the machine from another company stating that the machine was rare in the field, and therefore a sum of Rs.141,000 had been overpaid.	That the procurement committee has taken the decision considering the convenience of spare parts and services.	Decisions should be made focusing on technical committee recommendation and cost minimization while purchasing.

#### 4. Accountability and Good Governance

##### 4.1. Annual Action Plan

Audit Observation	Comments of the Sabha	Recommendation
(a) According to the prepared annual action plan, 08 tasks that should be performed by the Sabha had not been performed and the cost estimates for those tasks had not been submitted.	Expected to be fulfilled in the year 2024.	Planned projects should be completed within the relevant year.
(b) According to the budget for the year 2023, a sum of Rs.1,500,000 has been allocated for the development of utilities in the Sabha area, but the works had not done.	-Do-	Planned projects should be completed within the relevant year.

##### 4.2 Environmental Issues

Audit Observation	Comments of the Sabha	Recommendation
The Sabha had also refrained from collecting garbage in the Sabha area even in the year 2023.	That garbage collection is not done due to lack of land for garbage disposal.	Necessary arrangements should be made for proper waste disposal.