

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Laggala Pradeshiya Sabha for the year ended 31 December 2023 comprising with the Balance Sheet as at 31 December 2023 and Income and Expenditure Account, and other explanatory information 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 sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and National Audit Act No. 19 of 2018. 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 Laggala Pallegama Pradeshiya Sabha as at 31 December 2023, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices

1.2 Basis for Qualified

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 **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 Scope of Audit (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 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)	Stamp duty receivable of Rs.340,400 was not accounted for in the year under review.	It will be corrected during the preparation of the final account in 2024.	It should be correctly accounted for.
(b)	Stamp duty income of Rs.473,520 received in the year under review, which was not recognized as previous year's bills, was credited to the Income Debtors account instead of being credited to the Accumulated Fund Account..	-Do-	-Do-

(c) The balance of fixed assets shown in the balance sheet as at the end of the year under review was Rs.64,842,871, while the sum of the contributions from income and grants to capital application accounts was Rs.60,765,733, there was a difference of Rs.4,077,098.	It will be corrected during the preparation of the final account in 2024.	It should be correctly accounted for.
(d) Although, the retention amount regarding the 05 rural road projects implemented in the year 2021, had been remitted by the Ministry of Transport and Highways to the bank account of Sabha in December of the year under review, that amount of Rs.652,961 was not accounted for.	-Do-	-Do-
(e) The value of 02 motorcycles worth Rs.180,000 received from the rural water supply and sanitation project was not accounted for.	It will be corrected during the preparation of the final account in 2024.	It should be correctly accounted for.
(f) Rs.2,946,860 which had been spent for the Pitawala tourist resort as at the end of the year under review had not been capitalized.	-Do-	-Do-
(g) Due to the capitalization of Rs.329,592 worth of furniture and office equipment received by the Ministry of Public Administration and Home Affairs Provincial Councils and Local Government as Rs.950,196, it had been over accounted by Rs.620,604.	-Do-	-Do-
(h) Advances of Rs.71,380 had been settled during the year under review but were further shown as unsettled advances in the financial statements.	-Do-	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.24,644,940 when comparing the balances of 15 account subjects shown in the financial statements with the related documents and schedules as at the end of the year under review.	There are errors in the schedules, and action will be taken to correct the schedules	Matters related to mismatch should be inspected and corrected.

1.6.3 Suspense Accounts

Audit Observation	Comments of the Sabha	Recommendation
The credit balance of suspense account of Rs.2,241,938 as at the beginning of the year under review was also not settled during the year under review.	It has occurred before 2014, and there is no documentation to identify the reason for difference.	Balances should be identified and settled.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-submission of documents, files and schedules relating to 09 asset items amounting to Rs.18,892,348 and a credit balance of Rs.70,489 shown in the financial statements of the year under review, they could not be satisfactorily verified during the audit.	It is not possible to present the schedules as the balances are not disclosed in the books related to the subjects	Documents, schedules and files related to account balances should be prepared.

1.7 Non- Compliances

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

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
Public Administration Circulars			
(a) Circular No. 26/92 dated 19 August 1992	The state emblem was not painted on the body of 02 vehicles of the Sabha.	Action will be taken to correct.	Circular instructions should be followed.
(b) Circular No. 30/2016 and dated 29th December, 2016	The fuel combustion of 02 running vehicles owned by the Sabha had not been tested for 02 years.	The fuel combustion will be tested.	Circular instructions should be followed.
(c) Circular No. 02/2018 and dated January 24, 2018	Human resource development plan was not prepared.	It will be corrected in the year 2024.	Circular instructions should be followed.

2. Financial Review

2.1 Financial Result

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. 861,470 as against the excess of revenue over recurrent expenditure amounted to Rs. 871,619 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 presented by the Secretary relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2023				2022			
	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.
(i). Rates and Taxes	781,500	585,373	605,048	280,875	536,000	551,165	467,145	300,550
(ii). Rent	4,709,800	844,209	854,740	723,020	3,902,440	1,231,131	1,205,735	733,551
(iii). License Fees	218,000	279,960	279,960	21,750	328,000	67,700	67,700	21,750
(iv). Other revenue	9,376,677	5,670,348	5,155,518	4,757,583	3,022,300	2,527,175	2,183,648	4,242,753
Total	<u>15,085,977</u>	<u>7,379,890</u>	<u>6,895,266</u>	<u>5,783,228</u>	<u>7,788,740</u>	<u>4,377,171</u>	<u>3,924,228</u>	<u>5,298,604</u>

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Rent		
	Arrears rent of Rs.50,925 related to the period from December 2021 to October, last year was not collected from a lessee of a Weekly fair stalls.	Action will be taken to give whatever stalls to the old tenderer, or to take legal action.	Arrangements should be made to recover the arrears of income.
(b)	Other Revenue		
I.	I. The outstanding water revenue to be collected at the end of the year under review was Rs.466,200, of which Rs.111,112 was a balance due from 57 consumers whose water supply was disconnected.	Actions are being taken to recover.	Arrangements should be made to recover the arrears of income.

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| II. | The arrears of water charges of Rs.161,523 to be collected from the quarters of Laggala Old Hospital was not collected. | That the details will be sent to the District Health Services Director office | Arrangements should be made to recover the arrears of income. |
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3. Operational Review

3.1 Transactions of Contentious Nature

Audit Observation

An officer who was appointed as acting technical officer of the Sabha from October 1, 2019, was paid Rs.146,101 for the period of September 2019 to July 2022 as travel expenses subsistence allowances for travelling to the office in addition to the acting inspection allowance.

Comments of the Sabha

It will recovered from the salary will be recovered in instalments.

Recommendation

Arrangements should be made to recover from the officer.

3.2 Management Inefficiencies

Audit Observation

- (a) Although the Kivulawadi water scheme, which had started construction from the year 2021, on the provisions of the “Villages with Special Needs Program”, aimed to supply water to 110 consumers, by November 02, 2022, part of it had been constructed and Rs.2,377,539 had been spent. Although it was able to supply water to 12 consumers, none of the consumers had applied for water connection at the end of the year under review. As a result, Rs.2,377,539 spent for that had become useless expenses.

Comments of the Sabha

Due to increase in cost, water connections cannot be provided due to inability to lay water pipes to the places where there are large number of consumers.

Recommendation

Attention should be given to providing drinking water to more consumers.

- (b) The total of 12 accounts receivable balances as at the end of the year under review was Rs.12,374,008, out of which Rs.990,423 belonging to the period between 01 to 03 years and Rs.11,383,585 for more than 05 years had not been recovered.

The information regarding outstanding balances is not maintained, there is no possibility of recovery.

Arrangements should be made to settle the balance.

(c) At the end of the year under review, the sum of 05 accounts payable balances was Rs.8,316,598, of which Rs.743,808 for the period between 03 to 05 years and Rs.7,572,790 for more than 05 years had not been settled.	As information regarding creditor balances is insufficient, there is no need for settlement.	Arrangements should be made to settle the balance.
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3.3 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) According to the National Environmental Act, trade licenses were issued to 19 business entities without obtaining environmental protection licenses, and as a result, revenue of Rs.85,500 had been lost.	Action will be taken to issue license.	The provisions of the Act should be followed.
(b) Although 85 building development applications were submitted between 2016 and the year under review, 52 building applications were not approved. There was no follow-up in this regard and although a period of 01 to 07 years had passed since 40 development permits were issued, compliance certificates had not been issued in respect of those buildings.	Action will be taken for follow up and to issue compliance certificates.	The provisions of the Act should be followed.
(c) Out of 248 water consumers of 07 water projects run by the Pradeshia Sabha, water meters are not installed for 105 consumers, and an informal system was followed in water billing. Also, there was no water treatment was implemented.	Considering the financial situation of the Sabha, the installation of water meters will be done in parts.	Arrangements should be made to install water meters.
(d) A total of Rs.1,701,213 in 148 cases, ranging from Rs.7,500 to Rs.78,430 per day, for obtaining fuel for vehicles without proceeding in accordance with M.R.371 (2)(b) as amended by State Finance Circular No. 01/2020 dated August 28, 2020, Interim imprest were continuously given to an officer in an informal manner, and 15 interim imprests were settled with a delay of 16 to 30 days.	In the future, fuel will be procured through fuel orders.	Arrangements should be made to obtain fuel through fuel ordering methods.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
As at the end of the year under review, 05 units of assets worth Rs.8,197,144 and 15 units of unassessed assets remained idle and underutilized for a period of 01 to 08 years.	The stalls are underutilized due to their location in a depopulated area and the vehicles being congested. The computers and devices will be repaired and used.	Assets that can be repaired should be repaired and utilized, utilize for productive work or disposed of.

3.5 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) By the end of the year under review, the ownership of 66 lands and 45 buildings tenured by the Pradeshiya Sabha had not been taken over to the Pradeshiya Sabha	That land and building assessment will be obtained and accounted for	Ownership of assets should be taken over.
(b) As at the end of the year under review, 136 office furniture and equipment had not been assessed and accounted for.	It will be corrected.	It should be assessed and accounted for.
(c) The value of 27 cemeteries, 02 playgrounds, 03 library buildings and lands, community halls, quarters, and 19 lands with pre-school buildings used by the Pradeshiya Sabha had not been assessed and accounted for.	-Do-	-Do-

3.6 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
Comparing the approved staff and the actual staff of the Sabha, there were 08 vacancies in 06 posts.	Action has been taken to inform the top management in this regard.	Vacancies should be filled.

**4. Accountability and Good Governance
Sustainable Development Goals**

Audit Observation	Comments of the Sabha	Recommendation
According to the provisions of the Sustainable Development Act No. 19 of 2017, the Pradeshiya Sabha had not formally identified and implemented sustainable development objectives.	It has not been possible to achieve the objectives due to the poor financial condition of the Sabha.	Sustainable Development Goals should be implemented.