

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ipalogama Pradeshiya Sabha for the year ended 31 December 2024 comprising the Statement of assets and liabilities as at 31 December 2024 and the Comprehensive Income Statement, Statement of changes in Net Assets /Equity, Cash Flow Statement 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, 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 Ipalogama Pradeshiya Sabha as at 31 December 2024, 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) Although the creditors value of the project to develop Sirikkulama village road by tarring it was Rs.280,000, the value was accounted as Rs. 350,000, thus the creditors had overstated it by Rs. 70,000.	Accepted.	The correct value must be accounted.
(b) Although the capitalized value of the Mihiliya Thurula Hela Bojun Hala and Park construction project was Rs. 10,641,792, assets were overstated by Rs. 600,020 due to it being capitalized as Rs. 11,241,812.	Accepted.	The correct value must be accounted.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
Although the value of 06 account items as per the financial statements of the year under review was Rs. 72,475,013, the value as per the schedule was Rs. 72,018,531, resulting in a difference of Rs. 456,482.	Accepted.	The correct value must be accounted.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31st December 2024 amounted to Rs. 4,404,899 as compared with the excess of revenue over expenditure amounted to Rs. 5,190,994 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 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		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.
(i)	Rates and Taxes	5,466,500	4,258,795	3,656,245	2,148,100	5,103,050	4,389,315	6,090,115	1,825,100
(ii)	Rent	12,228,988	18,362,548	17,125,344	2,817,015	10,370,483	10,337,289	10,713,063	1,584,311
(iii)	License fees	482,850	442,145	572,145	7,000	403,700	311,170	393,420	147,250
(iv)	Other Revenue	19,320,180	19,173,223	31,570,499	11,288,569	20,998,500	22,533,769	18,796,654	23,868,247
		<u>37,498,518</u>	<u>42,236,711</u>	<u>52,924,233</u>	<u>16,260,684</u>	<u>36,875,733</u>	<u>37,571,543</u>	<u>35,993,252</u>	<u>27,424,908</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) Tax The arrears of garbage tax relating to previous years and the garbage tax relating to the year under review amounting to Rs. 4,060,650 should have been collected, but in the year under review, only Rs. 2,008,700, which is 49 percent of it, had been collected.	That steps are being taken to recover the arrears balance.	Action should be taken to recover the arrears of amount.
(b) Rent (i) The outstanding fees of Rs. 1,893,200 due for providing 03 machines and vehicles owned by the Sabha to the Provincial Road Development Authority on a rental basis from the year 2020 to the year 2024 had not been collected. (ii) As at 31st of December 2024, arrears of rent Rs. 1,036,150 had not been collected in respect of 102 shops owned by the sabha.	That steps are being taken to recover the outstanding balance. That actions are being taken to recover the outstanding balance.	Action should be taken to recover the outstanding amount. Action should be taken to recover the outstanding amount.

(c) Other Revenue

The court fines receivable from the Chief Secretary of the Provincial Council and other authorities as at 31st December 2024 were Rs. 6,207,021 and stamp duty was Rs. 9,374,850.

That step will be taken in the future to collect the outstanding amount.

Action should be taken to recover the outstanding amount.

3. Operational Review

3.1 Performing of Functions Enacted by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation

Under Section 126 of the Pradeshiya Sabha Act, by-laws could have been enacted to carry out 30 matters, but by-laws had not been enacted for those matters as at 31st December of the year under review.

Comments of the Sabha

It has been announced that steps will be taken to enact by-laws in the future.

Recommendation

Action should be taken to enact by-laws.

3.2 Management Inefficiencies

Audit Observation

The lessees had claimed that they had constructed 02 shops, Nos. 27 and 28 in the Hiripitiyagama shop complex and 07 shops in Ranajayapura, and had charged only half of the assessed value, but the sabha did not have any information such as approvals, formal agreements, title conditions, or the model of construction to prove that they had been constructed..

Comments of the Sabha

The necessary steps will be taken to take over these shops from the sabha in the future.

Recommendation

Confirmatory written evidence should be submitted and steps should be taken in the future to take over the shops from the sabha.

3.3 Operational Inefficiencies

Audit Observation

- (a) The lessees of shops from numbers 18 to 36 of the Ipalogama shopping complex had made changes at their discretion, added parts, built higher floors and rented them out, and transferred them to other parties, but the sabha had not taken steps to stop the unauthorized construction activities and

Comments of the Sabha

Action will be taken to assess and levy taxes on the relevant unauthorized constructions.

Recommendation

Action should be taken to investigate and take necessary action regarding unauthorized constructions.

also had not it investigated and taken the necessary steps in this regard.

- | | | | |
|-----|--|---|--|
| (b) | The 17 shops in Senapura belonging to the sabha had been given without entering into an agreement, and the collection of rent from those shops had also been removed from the sabha's registers. | The necessary steps are already being taken to collect a new agreedemented assessment amount for the year 2025. | The necessary steps must be taken to enter into a agreement. |
|-----|--|---|--|

3.4 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
The cab and tractor belonging to the sabha had not been registered in the name of the sabha.	Not commented.	Action should be taken to take ownership of the vehicles and register them in the name of the sabha.