

Balapitiya Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Balapitiya Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Statement of financial position as at 31 December 2024, Statement of Financial Operations, Statement of changes in net assets, 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and sub section 10 (1) of the 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 accompanying financial statements give a true and fair view of the financial position of the Balapitiya Pradeshiya Sabha as at 31 December 2024, 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

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 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 include 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) The value of 12 office equipment including 09 computers and a printer that had been donated to the Pradeshiya Sabha had not been accounted for as fixed assets.	That will be corrected through the final account 2025.	Equipment including 09 computers and printer should be accounted as fixed assets.
(b) During the year under review, the assessment tax received in advance of Rs. 734,104 was debited to the assessment tax arrears account, resulting in overstated of assets and understated of liabilities by that amount.	That will be corrected through the final account 2025.	The outstanding assessment account and the assessment balances received in advance should be corrected.
(c) Since the Rs. 106,810 spent on the literary festival was not included in the expenditure	That it will be corrected in the year 2025.	Relevant expenses must be accurately accounted for.

for the year, the deficit for the year under review was understated by that amount.

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| (d) | Although Rs. 2.08 million had been paid to two industrial creditors and settled, the balance was still listed as creditors. | That will be corrected through the final account 2025. | Accurate accounting must be done. |
| (e) | Due to double accounting of Rs.2.98 million in relation to 02 industries, the balances of capital grant and debtors account were overstated by that amount. | That will be corrected through the final account 2025. | Accounting should be done correctly. |
| (f) | Due to non-capitalization of expenses of Rs.5.21 million, the value of land and buildings was understated by that amount. | That will be corrected through the final account 2025. | The understated value of land and buildings should be corrected. |
| (g) | Although the credit balance of the stamp duty payable account on December 31, 2023 was Rs.322,962 as on January 01, 2024 it had been brought forward as a debit balance, the liability on December 31, 2024 was understated by that amount and the stamp duty asset was overstated by that amount. | That will be corrected through the final account 2025. | Accounting must be done correctly. |
| (h) | The value of the stock as of December 31, 2024, was overstated by Rs. 1.89 million. | That will be corrected through the final account 2025. | The overstated stock value should be corrected. |
| (i) | Due to the fact that the discount of Rs.1.09 million given for the assessment tax was not credited to the outstanding assessment tax | That will be corrected through the final account 2025. | The overstatement of arrears in assessment tax should be corrected. |

account, the outstanding assessment tax balance was overstated by that amount.

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| (j) | When remitting stamp duty of Rs.189,646 to the Commissioner of Inland Revenue, the deposit value was overstated by that amount due to the fact that it was credited to multi deposit accounts. | That will be corrected through the final account 2025. | Accurate accounting must be done. |
| (k) | During the year under review, 03 journal entries worth Rs. 3.31 million were not enter to the general ledger, resulting in understate of the audit fees, expenses payable to the Department of Pensions for the year and creditors by that amount. | That will be corrected through the final account 2025. | The understated creditor value must be corrected. |
| (l) | The balance of Local Government Service Pension Contributions payable amounting to Rs. 7.79 million was not disclosed in the financial statements. | That will be corrected through the final account 2025. | The balance of Local Government Service Pension Contributions payable should be accounted for. |

1.6.2 Unreconciled Control Accounts

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| (a) A difference of Rs. 297.07 million was observed between the balances relating to 15 accounting subjects shown in the financial statements and the balances shown in the relevant schedules. | That will be corrected in the future. | Differences should be compared and corrected. |

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| (b) | Although the balance of Rs. 388.35 million, which was the value of fixed assets, should be equal to the accounts of contribution from income and grants to capital, there was a difference of Rs. 157.55 million between those balances. | That will be corrected through the final account 2025. | The reasons for the difference of Rs. 157.55 million between the accounts should be examined and the accounts corrected. |
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1.6.3 Documentary Evidences not made available for Audit

	Audit Observation	Comments of the Council	Recommendation
(a)	Due to non-submission of updated fixed assets register and schedules, the balances of 05 accounting subjects totalling Rs. 375.52 million could not be satisfactorily examined.	That the schedules are being updated.	Updated fixed asset register and schedules must be submitted.
(b)	Journal vouchers for 105 journal entries with a total value of Rs.230.35 million were not submitted for audit.	From the year 2025, journal vouchers will be prepared for every journal entry.	Approved journal vouchers should be submitted for audit.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December amounted to Rs.0.9 million as compared with the excess of revenue over recurrent expenditure amounting to Rs.12.1 million 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, the following is information on estimated income, billed income, collected income and arrears of income for the year under review and the previous year.

		2024				2023			
Source of Revenue		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.	Rs.
Rates and Taxes		23,820,000	21,168,608	17,702,107	37,671,993	22,815,000	22,037,958	19,183,711	34,205,492
Rent		5,620,000	4,652,202	4,450,343]	4,452,592	5,130,000	6,114,336	4,368,920	4,250,733
License Fees		4,015,000	5,104,178	5,104,178	-	2,810,000	4,063,042	4,077,992	-
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		33,455,000	30,924,988	27,256,628	42,124,585	30,755,000	32,215,336	27,630,623	38,456,225
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2.2.2 Performance in Revenue Collection

The following are observations regarding the performance in revenue collection of the sabha.

	Audit Observation	Comments of the Council	Recommendation
(a)	Assessment Tax		
(i)	The outstanding assessment tax balance, which was Rs. 34.20 million at the beginning of the year under review, had increased by Rs. 3.47 million to Rs. 37.67 million at the end of the year under review.	That the deficit will be reduced in the future.	Arrangements should be made to collect the arrears.
(ii)	Out of the total number of 19,516 properties subject to assessment tax, 10,645 properties had not collected assessment tax amounting to Rs.7.97 million in relation to the year under review, and the deficit in the previous years was Rs.18.98 million.	Efforts will be made to minimize this deficit in the future.	Steps should be taken to recover outstanding assessments and arrears.

(b) Rent

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| (i) | Although the total rental income to be collected for the year under review and the previous year was Rs. 8.90 million, the income collected during the year was Rs. 4.45 million, making the income collection percentage 50 percent, and there was a deficit balance of Rs. 4.45 million at the end of the year. | That step is being taken to recover the outstanding amounts and that necessary legal actions have been taken. | Action should be taken to recover the arrears of revenue. |
| (ii) | Although the contracts of 15 shops in the Ahungalla public market complex had expired on September 30, 2023, those contracts had not been updated by the end of the year under review according to Sections 05 of Southern Province, Local Government Commissioner's Circular No. 2010/01 dated December 27, 2010. | Those 2 shops have been sealed, 2 shops have been handed over to the sabha and notified to settle the arrears from key money and that the contracts of 8 shops have been renewed. | Action should be taken in accordance with the provisions of the Pradeshiya Sabha Act and the circular. |

(c) Other Income

The stamp duty that should have been collected from the chief secretary of the provincial council and other authorities on December 31, 2024 was Rs.40.67 million.	That the arrears will be recovered.	The chief secretary's office and the land registrar department should jointly prepare and implement a formal program to recover the arrears of revenue.
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3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Council	Recommendation
The three stalls built to sell fish at Ahungalla two-storied public market building remained idle since 2018 without being used for income generation.	That the structure of these fish stalls has been changed and developed and arrangements are being made to lease these stalls for general trade.	The building must be used effectively.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Till October 04 of the year under review, the electrical stock of 307 units worth Rs.907,040 issued by the storekeeper had not been utilized by the electrician.	That the items are mentioned in the electrical duty notes.	Internal controls over street lighting installations should be strengthened.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Although the lessee is responsible for any damage to the property and the premises handed over according to the 18th condition of the contract relating to the lease of the sabha's shops, but without paying attention to it, due to damage to the glass of the shop No. 07 of the multi-purpose building on two occasions in the year 2023, Rs. 147,463 was spent from the	It has been stated that steps have been taken to include a condition that "the lessee must obtain acceptable insurance coverage" when entering into contracts for shops in the future, and that necessary	Damages incurred after lease must be recovered from the lessee.

council fund for repairs.

steps will be taken to investigate the damage that has occurred.

- (b) The upper floor of the Kosgoda sub-office building has been idle for about five years, and the roof of this building has not been repaired and used for effective work.

That the roof is proposed to be repaired and put to productive use in the future.

Assets should be used effectively.

3.4 Defects in Contract Administration

	Audit Observation	Comments of the Council	Recommendation
(a)	Although an expenditure of Rs. 600,000 was incurred in 2022 for the development of the Heenatiya public stadium and Rs. 1.6 million for the development of the Andadola tennison silva stadium, both these stadiums had not been leveled to be usable.	That it is proposed to be developed in stages or completely in the future depending on the funds received.	Funds should be used effectively.
(b)	In the year 2019, the ground floor of the multi-purpose building assigned to the sabha was used for income generation, but since the construction work of the second floor has not been completed, there was a risk of the slab being exposed to the environment and rotting and water leaking into the first floor, and the sabha had not completed its construction and used it for income generation.	As sabha funds are not sufficient to complete the work of the roof, arrangements will be made to develop the building with a loan from the local loans and development fund or other provision and use it to generate income.	Urgent action should be taken to complete the construction so that the building can be used effectively.
(c)	For the development of Thotawatta Rajapaksa	That the estimates for this industry	Estimates should be made in favor of the

Mawatha, last year, a contract was made for Rs.1.8 million based on council funding and Rs.1.77 million had been paid. Due to using the price rates of May 2023 instead of using the price rates of the second half of the year 2023 introduced by the southern provincial road development authority for this industry, the council fund had incurred a loss of Rs.177,938.

were prepared on 07 October 2023 and approved by the industry committee on 10 October 2023 and the prices were received by the local government department on 24.10.2023.

Council Fund and the loss incurred should be recovered.

3.5 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) According to the Human Resource Plan, there was a surplus of 13 officers of the sabha as on the last date of the year under review.	Necessary steps have been taken in accordance with Management Services Circular 03/2014 to approve these posts.	A staff review should be conducted and appropriate action should be taken according to the functions and scope of the Council.
(b) According to the public Administrative Circular No. 18/2001 dated August 22, 2001, annual transfers should be given to officers who have been in service for more than 05 years, but 15 officers in the Balapitiya pradeshiya sabha were employed there for a period of between 06 to 25 years.	When implementing transfers, if transfers are granted in relation to those posts, necessary steps will be taken to implement the transfers without keeping them in the office.	Arrangements for transfers should be made in accordance with the circular provisions.