

Lunugamwehera Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lunugamwehera Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the 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 the provisions with subsection 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 financial statements give a true and fair view of the financial position of the Lunugamwehera 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, 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 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 except for observation 1.6.2 (c) in paragraph 1.6 of this report, 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) An amount of Rs.496,780 incurred for the installation of equipment in the playground of the Sabha Preschool was accounted for twice, correctly under timber and equipment account and incorrectly under land buildings.	That will be corrected in the preparation of the financial statements of the year 2025.	Equipment and fixtures should be accounted for according to correct classification to avoid error of duplication.
(b) While capitalizing 04 items of capital expenditure, the related ancillary expenditure amounting to Rs.1.11 million was not included.	That will be corrected in the preparation of the financial statements of the year 2025.	Non-current assets purchased should be accounted for at correct value.
(c) The balance of Accumulated Fund Account as at 31st December 2021 had been prepared up to Rs.411,213 and the same had not been rectified in the year under review.	That will be corrected in the preparation of the financial statements of the year 2025.	The reasons related to the change in the accumulated fund balance should be investigated and adjustments made in the financial statements.

1.7 Non- Compliances

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

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions are shown under this heading.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a)	571 Finance Regulations of the Democratic Socialist Republic of Sri Lanka	Rs.98,000 security deposit balances of 04, exceeding 02 years had not been taken into income.	In the future, it will be taken into the Sabha's income.	Appropriate deposit balances of more than 02 years should be taken into income as per the referred Finance Regulations.
(b)	Paragraph 3.1 Public Administration Circular No.30/2016 dated 29 December 2016	Fuel consumption test was not done in 10 vehicles belonging to the Sabha which are in working condition.	That the fuel consumption tests of all vehicles will be completed Promptly.	Fuel consumption test of vehicles should be done as per the referred clause of the circular.
(c)	Treasury Secretary's Assets and Management Circular No. 01/2018 dated 19 March 2018	Four vehicles owned by the sabha that had been taken out of service were not disposed of or repaired and put to use.	Arrangements are being made to both 02 watercraft and the cabs disposed of.	In the case of vehicles which are not in working condition, the provisions of the referred circular should be dealt with.
(d)	The Southern Province, Department of Local Government Circular No දපපා/පපාකො/2010/01 dated 27 December 2010	In 04 malls owned by the sabha, 31 shops stall had been charged rent in the years 2024 and 2025 based on the old assessment without getting a new assessment.	According to the new assessment report for 22 shops stall, rent collection is being done and the remaining 09 shops stall have not received the relevant assessment reports.	As per the circular referred to, the shops stall owned by the sabha should be assessed and rent charged in time.

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 of under review amounted to Rs.695,658 as against the excess of recurrent expenditure over revenue amounted to Rs.3.82 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 presented by the Secretary of the Sabha, Information 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	2024				2023			
	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)
Rates and taxes	850,000	875,100	928,577	73,683	1,054,000	709,120	736,720	127,160
Rent	11,160,300	5,801,969	6,081,415	492,568	8,971,000	4,004,296	4,618,578	772,014
License fees	2,500,600	1,889,605	2,572,695	180,400	1,685,700	1,833,050	2,364,900	863,490
Other income	10,948,800	2,507,635	2,421,088	300,892	3,686,500	1,239,604	1,653,867	214,345
Total	<u>25,459,700</u>	<u>11,074,309</u>	<u>12,003,775</u>	<u>1,047,543</u>	<u>15,397,200</u>	<u>7,786,070</u>	<u>9,374,065</u>	<u>1,977,009</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
As at January 01 of the year under review, the total outstanding income from all sources of income was Rs.1.98 million and the total billings for the year were Rs.11.07 million. Accordingly, although the total income to be collected during the year is Rs.13.05 million, written-off and collected income was Rs.12 million. It was 92 percent of the total revenue.	In the year 2025, arrangements will be made to promptly collect the arrears and take legal action for uncollectible revenues.	Arrangements should be made to recover the arrears of revenue promptly.

2.2.3 Advertising boards Fees

Audit Observation	Comments of the Sabha	Recommendation
As per the provisions published in the Gazette No. 2357 dated 03, November 2023, although a survey has been conducted regarding the display of notice boards, for the year under review, fees of Rs.255,500 were not charged for 35 advertising boards which were displayed only on Mattala Road and New Town roads in the Sabha area. As on December 31 of the year under review, outstanding advertising board fees of Rs.180,400 had not been recovered.	Since it was confirmed that it was exhibited at the end of December 2024, the necessary arrangements will be made to collect it as an income to be collected in the year 2025.	Fees must be collected before display of advertising boards.

2.2.4 Stamp Duty

Audit Observation	Comments of the Sabha	Recommendation
The stamp duty due from the Chief Secretary of the Provincial Council and other authorities as on December 31 of the year under review was Rs.5.80 million. In the balance of stamp duty receivable, the balance due in relation to the year 2023 was Rs.2.24 million.	That Rs.02 million has been recovered from the deficit of the year 2003.	Arrangements should be made to bring in the arrears of income as soon as possible.

3. Operational Review

3.1 Discharging the functions entrusted 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	Comments of the Sabha	Recommendation
(a) Regarding the repair of roads and various disaster situations within the jurisdiction of the sabha, 23 public complaints received in the year under review and 12 complaints received in the months of November and December 2023 were not acted upon. According to the Public Complaints	After field inspections, roads and street lights that need to be repaired with high priority will be identified and repair work will be carried out.	An immediate action should be taken on public complaints.

Register related to street light repairs, there were 21 complaints that had not been acted upon and the delay ranged from 09 days to 74 days. Thus, the performance of the service to the public was not at a satisfactory level.

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| (b) | In relation to the National Environment Act No. 47 of 1980 published in the Special Gazette No. 2264/18 dated 27 January 2022, Although environmental protection licences are required to be obtained for industries falling under part (d) of paragraph I, however according to the sample audit conducted, there were 03 institutions that did not renew the environment protection license of the sabha and the sabha had lost Rs.13,200 from those institutions. | That the environmental protection license has been issued for the carpentry shed and the paddy mill and that the environmental license for the concrete works will also be given as soon as possible. | Businesses should be encouraged to obtain environmental license and collect fees due to the sabha. |
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3.2 Management Inefficiencies

Audit Observation	Comments of the Recommendation Sabha
(a) At 24 December 2013, the land of 4 hectares was given for the disposal of solid waste for a period of one year by a various license number H/01/777/2013 from the Department of Forest Conservation for an amount of Rs.40,000. And while its acquisitions had started, The need to have paid an amount of Rs.272,800 to the Department of Forest Conservation at 14 August 2024 in relation to the period from the year 2018 to the year 2024 was not clear to the audit.	That the District Forest Conservation Office has informed that after paying the outstanding license fee of Rs.272,000, it will be handed over or an exemption license will be issued. The need for payment of fees should be explained in the proceedings related to the transfer of the land to the Sabha.
(b) The amount paid in excess related to the completed industries was deducted from the 10 percent retention amount and the total value of Rs.849,553 was deposited under various deposits. The money had not been re-examined and rectified in the relevant industries or taken into the sabha's income.	After collecting the money due in relation to the projects, the balance will be released under a proper system or taken into the sabha's income. The retained money should be used to rectify the defects of the respective industries or to be taken into the sabha's income.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
(a) The Lunugamwehera bus stand building, constructed in 2019 at a government cost of Rs.18 million, has not yet been used for any productive economic purpose. An agreement of understanding between the Pradeshiya Sabha and the Southern Provincial Passenger Transport Authority was signed at 29, December 2022, to grant the Sabha user rights to operate a cafeteria within the building. However, the agreement did not specify an implementation period. Although the Sabha incurred expenses amounting to Rs.53,062 for the building, by the audit date of 8, January 2025—three years later—the Sabha had not commenced operation of the cafeteria, and the intended objectives had not been achieved. Furthermore, although seven years have passed since the construction of the new Lunugamwehera bus stand at government expense, the building remains abandoned.	Since no action has been taken regarding the request to cancel the agreement and transfer it to the relevant parties, the Sabha has had to bear the maintenance expenses of the building until a definite response is received.	The Lunugamwehera bus stand should either be used for its intended purposes as stipulated in the agreement or handed back to the relevant parties.
(b) Under the Southern Province Development Plan – 2018, a sum of Rs.1.59 million was spent to construct a tube well and a water tank with a support structure in front of the Lunugamwehera Pradeshiya Sabha, with the aim of supplying water to the public and for agricultural use. However, the project has been inactive for more than two years. The water pump valued at Rs.733,450 is physically missing from the Sabha premises, and the 10,000-liter capacity water tank has cracked near its base, making it impossible to achieve the intended objectives of the project.	Action is being taken to reactivate the water project, and arrangements are being made to recover the water pump from the institution to which it was given for repair.	The expenses incurred for the community water project should yield the expected benefits.

3.4 Asset Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Action has not been taken to transfer ownership of three vehicles and 107 plots of land, totaling 161 acres, 1 rood, and 33.70 perches, to the Sabha.	Ownership of the three vehicles has not yet been transferred, and action is being taken to complete the process of transferring the lands.	The legal ownership of the three vehicles and 107 lands used by the Sabha should be transferred within a specified timeframe.
(b)	According to the instruction letter No. DPP/15 dated 19, March 2007, issued by the Southern Provincial Commissioner of Local Government, all properties owned by local authorities should be fenced to prevent unauthorized access, and disputed lands should be re-surveyed and properly demarcated. However, based on the 2023 land survey report, the Sabha had failed to take such action in 71 instances.	Fencing will be constructed after completing the necessary legal procedures for the transfer of lands listed under public properties.	The lands owned by the Sabha should be fenced and properly secured.
(c)	According to letter No. LU/IS/3/3/64 dated 24, May 2002, from the Lunugamwehera Divisional Secretary, arrangements had been made to transfer two acres from an eight-acre land located in front of the Weerawila Thurusewana area to the Sabha for the construction of a crematorium. However, details regarding further action or the current status of the land transfer had not been submitted for audit review.	Since a boundary dispute exists regarding the land, a proposal has been submitted to the Lunugamwehera Divisional Land Use Committee for resolution.	The ownership and security of the lands belonging to the Sabha should be properly ensured.

3.5 Human Resource Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	An excess of nine employees was observed in relation to five positions within the Sabha.	The Commissioner of Local Government has informed that approval for the duplicate positions cannot be granted at this stage.	A review should be conducted regarding the Sabha's staffing requirements.
(b)	According to Public Administration Circular No. 18/2001 dated 22, August 2001, any officer who has served in the same workplace for more than five	Applications have been submitted for the annual transfers to be implemented in 2025.	Officers who have served in the same workplace for more than five years should be transferred to other

years should be transferred to another service station. However, it was observed that eight officers of the Sabha have been serving in the same workplace for periods ranging from six to twenty-five years.

service stations in accordance with the relevant circular.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Sabha	Recommendation
Under the 15 institutional performance indicators based on the Sabha's action plan, the actual completion rate for 5 of the 24 sub-indicators remained below 50 percent. In addition, according to the annual action plan, the Sabha had not implemented 9 projects valued at Rs.66.78 million as of December 31, 2024.	More attention will be focused in the coming years on achieving indicators that are easier to attain.	Development proposals should be planned and implemented in a goal-oriented manner.

4.2 Budgetary Control

	Audit Observation	Comments of the Sabha	Recommendation
(a)	A significant unfavourable variance totalling Rs.158.25 million was observed between the budgeted and actual income and expenditure for five revenue items during the reviewed year, ranging from 24 percent to 91 percent. This indicates that the budget had not been effectively used as a financial control tool.	Steps will be taken to prepare the budget more effectively in the coming years.	Variances should be minimized, planning should be made more systematic, and revenue collection should be made more efficient.
(b)	The Sabha had estimated Rs.162.83 million as capital receipts for the year 2024, which was twelve times higher than the actual receipts. Including such an inflated amount compared to the estimated receipts of the previous two years had made it impossible to use the budget effectively as a financial control tool.	Steps will be taken to prepare the budget more effectively in the coming years.	Unusual variances should be minimized when preparing estimates.

4.3 Environmental Observations

Audit Observation	Comments of the Sabha	Recommendation
According to Condition No. 03 of the Environmental Protection License issued for waste management at the Solid Waste Management Center, plastic, polythene, paper, glass, and metal waste should be separated and sent to relevant institutions for recycling. Until such waste is sent, it should be properly stored in a suitable place to prevent it from being blown away by the wind or mixed with rainwater. However, the Sabha had not followed these procedures. In addition, proper internal control systems had not been maintained for compost production and sales activities.	The waste collected at the center is stored separately, but there is insufficient space to store the waste collected alongside the dengue prevention program.	A systematic procedure should be established for the disposal of solid waste.

4.4 Sustainable Development Goals

Audit Observation	Comments of the Sabha	Recommendation
The achievement rate for four targets under three performance indicators related to the Sustainable Development Goals remained low, ranging from 0.8 percent to 27 percent.	The progress of these indicators had been calculated relative to the previous year.	The progress toward achieving the Sustainable Development Goals should be presented accurately from the beginning of implementation to date.