

## **Pointpedro Pradeshiya Sabha – 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Pointpedro Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, Income and Expenditure Account, 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 the 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 Pointpedro 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 Principles.

#### **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 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 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

|     | <b>Audit Observation</b>                                                                                                                                            | <b>Comments of the Sabha</b>                                        | <b>Recommendation</b>                               |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------|
| (a) | 02 capital works worth Rs.27,892,436 completed in the year under review had not been capitalized.                                                                   | Steps are being taken to disclose in the accounts of the year 2025. | Accounts should be prepared correctly.              |
| (b) | The values of 40 lands owned by the Sabha had not been revalued and accounted for by the end of the year under review.                                              | Revalued and will be included in the final accounts.                | -Do-                                                |
| (c) | Garbage charges receivable of Rs.443,657 had not been disclosed in the financial statements.                                                                        | Payments have not been made.                                        | Financial statements should be prepared accurately. |
| (d) | The Sabha's office electricity expenses of Rs.189,175 and the receivable solar energy sales income of Rs.68,367 had not been disclosed in the financial statements. | Action will be taken to disclose in the financial statements.       | Financial statements should be prepared accurately. |

### 1.6.2 Unreconciled Control Accounts or Records

| <b>Audit Observation</b>                                                                                                                                                                     | <b>Comments of the Sabha</b>                                   | <b>Recommendation</b>                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| A difference of Rs.3,505,867 was existed between the balance as per the ledger and the balance in the financial statements as on <b>31 December 2024</b> relating to <b>02</b> fixed assets. | This will be corrected by appointing an appropriate committee. | The balances in the financial statements should be compared with the relevant source documents. |

## 1.7 Non- Compliances

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

| Reference to Laws, Rules Regulations etc.                                                                                                                                 | Non-compliance                                                                                                                                                             | Comments of the Sabha                                                                              | Recommendation                                                                                             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| (a) Section 134 of the Pradeshiya Sabha Act No. 15 of 1987                                                                                                                | K form had not been issued for 9,781 properties out of 18,464 properties that are to be recovered assessment tax by the Sabha in the year under review.                    | There were difficulties in identifying vacant land and the names of the owners were not mentioned. | Action should be taken according to the provisions of the Act.                                             |
| (b) 571(1), (2) and (3) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka                                                                        | The Sabha had not taken steps to return 04 deposits totaling Rs.471,145 to the relevant individuals or transfer them to revenue, which had expired for more than 02 years. | That has been notified by letters.                                                                 | Appropriate action should be taken regarding overdue deposits as per financial regulations.                |
| (c) Section 11 of Part I of the Gazette Extraordinary No. 2235/54 dated 08 July 2021 of the Urban Development Authority of the Democratic Socialist Republic of Sri Lanka | Steps had not been taken to recover extension fees amounting to Rs.350,000 for buildings that had not obtained certificates of conformity.                                 | Notifications have been made regarding the extension of the time.                                  | Action should be taken to recover fees for extension of time in accordance with the provisions of the Act. |

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.78,459,648 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 53,864,370 in the preceding year.

### 2.2 Revenue Administration

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

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 Income  | Revenue Billed    | Revenue Collected | Arrears as at 31 December |
|                   | Rs.               | Rs.                | Rs.               | Rs.                       | Rs.               | Rs.               | Rs.               | Rs.                       |
| Rates and Taxes   | 7,000,000         | 12,120,299         | 4,717,242         | 7,403,057                 | 650,269           | 1,874,440         | 650,269           | 1,224,171                 |
| Rent              | 14,095,600        | 16,004,747         | 15,788,697        | 216,050                   | 10,727,840        | 11,291,678        | 11,143,663        | 148,015                   |
| Licence Fees      | 1,797,200         | 2,098,185          | 2,098,185         | -                         | 2,074,534         | 2,136,534         | 2,136,534         | -                         |
| Other Revenue     | 61,937,200        | 71,880,800         | 69,635,270        | 2,245,530                 | 58,884,117        | 66,065,513        | 62,559,849        | 3,505,664                 |
|                   | <u>84,830,000</u> | <u>102,104,031</u> | <u>92,239,394</u> | <u>9,864,637</u>          | <u>72,336,760</u> | <u>81,368,165</u> | <u>76,490,315</u> | <u>4,877,850</u>          |

### 2.2.2 Performance in Revenue Collection

#### Audit Observation

The outstanding assessment tax balance as at the end of the year under review was Rs.7,403,057. Out of this, there was a balance of Rs.7,120,155 from 16,146 assessment tax properties for the period of 01 and 05 years and a balance of Rs.282,902 for more than 05 years. Also, the court fines due as at 31 December 2024 were Rs.460,000.

#### Comments of the Sabha

Action will be taken to recover the outstanding balance.

#### Recommendation

Appropriate action should be taken to promptly recover the outstanding balances.

## 3. Operational Review

### 3.1 Management Inefficiencies

#### Audit Observation

- (a) The balance of Rs.141,097,833 in fixed deposits during the year under review had been deposited with the bank for the purpose of earning interest income, without being utilized in development activities related to public utility services as specified under Section 108, Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987.
- (b) Steps had not been taken to commence 28 capital projects totaling Rs.52.6 million for which the Sabha had made provisions in the

#### Comments of the Sabha

Payments for development works had been made to date. The remaining funds had been deposited in the short-term deposits.

#### Recommendation

Steps should be taken to develop public utility services in accordance with the provisions of the Act.

Steps should be taken to complete the relevant development tasks

|     |                                                                                                                                      |                                                             |                                                                     |
|-----|--------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------------|
|     | year under review and previous years, by the end of the year under review.                                                           |                                                             | within the specified time frame.                                    |
| (c) | Steps had not been taken to generate income by renting out a shopping complex and 07 mobile stalls.                                  | A committee has been appointed to determine the bid amount. | Steps should be taken to fully utilize the Sabha's revenue sources. |
| (d) | A project constructed in 2016 at a cost of Rs.2,805,443 in Manalkadu area for the benefit of tourists had been completely abandoned. | It had been abandoned due to the lack of tourist arrivals.  | Adequate returns should be obtained for the expenditure incurred.   |

### 3.2 Operational Inefficiencies

| Audit Observation                                                                                                                                                                                                                                                                                                                                                             | Comments of the Sabha                                                                                                            | Recommendation                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| Although a Certificate of Conformity (COC) should be issued to confirm whether buildings have been constructed in accordance with Section 15(1) of the Housing Construction and Urban Development Ordinance No. 15 of 1915, Certificates of Conformity had not been issued for 107 development permits granted for building construction by the end of the year under review. | The relevant parties have been informed to obtain Certificate of Conformity and steps are being taken to rectify this situation. | Steps should be taken to issue a Certificate of Conformity. |

### 3.3 Assets Management

| Audit Observation                                                                                                                                                                                | Comments of the Sabha                            | Recommendation                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------|
| The ownership of 08 vehicles used by the Sabha, 02 markets, 02 shops, 05 offices, 02 slaughterhouses, 06 public wells and 33 cemeteries located in the lands had not been acquired by the Sabha. | Steps are being taken to acquire that ownership. | Ownership of assets should be settled. |

### 3.4 Procurement Management

| Audit Observation                                                                                                                                                                                                                | Comments of the Sabha                               | Recommendation                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------|
| (a) In accordance with Guideline 2.4 of the Government Procurement Guidelines 2006, 06 items worth a total of Rs.3,224,311 had been purchased without approving the technical specifications mentioned in the bidding documents. | Steps will be taken to pay attention in the future. | Action should be taken in accordance with the Procurement Guidelines. |

|                                                                                                                                                                                                                                                                                                                                   |                                                     |                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------|
| (b) Although a formal agreement should be entered into for any type of goods or services exceeding Rs.500,000 in value according to Guideline 8.7.3 (b) of the Government Procurement Guidelines–2006, no such formal agreements had been entered into with the suppliers in respect of three procurements totaling Rs.2,544,364. | Steps will be taken to pay attention in the future. | Action should be taken in accordance with the Procurement Guidelines. |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------|

#### 4. Accountability and Good Governance

##### 4.1 Budgetary Control

| Audit Observation                                                                                                                                                                                                                                                                                                                                                                                                                   | Comments of the Sabha                                                    | Recommendation                                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Due to the fact that there were variations from 08 percent to 33 percent in 03 revenue items, from 21 percent to 100 percent in 08 expenditure items and 13 percent in one capital expenditure items when comparing the estimated revenue and expenditure with the actual revenue and expenditure according to the budget prepared for the year under review, the budget had not been used as an effective management control tool. | <b>The fluctuations were due to unexpected income and high expenses.</b> | Needs should be identified and the budget should be prepared carefully. |

##### 4.2 Environmental Observations

| Audit Observation                                                                                                                                                                                                                                                                                                                | Comments of the Sabha                                                             | Recommendation                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| (a) In accordance with the National Environment Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and No. 53 of 2000, and the regulations in force thereunder, steps had not been taken to renew the expired environmental permits of 38 sawmills, 35 paddy mills and a building materials sales outlet.                     | The issuance of environmental protection permits is being carried out.            | Steps should be taken to renew trade licenses in accordance with the National Environment and the regulations in force thereunder. |
| (b) Non-degradable waste that could not be disposed of at an open site had remained without proper disposal and although recyclable materials should have been separated and sent for recycling as much as possible, such action had not been taken, and the waste had been burned in a manner that caused environmental damage. | Measures have been taken to recycle non-biodegradable waste when purchasing land. | Wastage should be disposed of in an environmentally friendly manner.                                                               |