

Pasgoda Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pasgoda Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, statement of financial and operational performance, statement of changes in net assets and 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 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 statement of financial positions as at 31 December 2024 of the Pasgoda Pradeshiya Sabha, and of its financial performance and its cash flows for the year then ended in accordance with the 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 Principles, 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 to be prepared.

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 exercise 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 the 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 Industry;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources 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

The National Audit Act No.19 of 2018 includes special provisions regarding the 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 included all the recommendations made by me in the previous year described 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 Observations	Comments of the Council	Recommendation
(a) The value of the Budalnagama Community Hall which belongs to the council had been understated by Rs.1.1 million.	That is capitalized and corrected by journal entries.	The correct value of the community hall should be included in the financial statements.
(b) Administrative expenses of Rs.0.55 million payable under the Integrated Rural Development Programme for the Mountain Decade, which was implemented during the year under review had not been accounted.	That will be corrected by journal entries.	Expenses should be accounted on an accrual basis at correct value.
(c) The key money of Rs.6.56 million received in the year under review for the lease of the shops had not been accounted as a deposit and had been accounted as income in the year under review.	Agreed.	Key money should be accounted as deposit (deferred income).
(d) Due to key money of Rs.0.83 million related to a shop that had been taken over by the council was accounted as receivable key money, receivable key money account had been overstated by that amount.	That the correction will be made when preparing the 2025 financial statements.	The receivable key money should be corrected through accounts.

1.6.2 Un-reconciled Control Account

Audit Observations	Comments of the Council	Recommendation
There was a difference of Rs.40,000 between the balances related to 02 accounting objects shown in the financial statements and the balances shown in the relevant supporting documents.	That the documents are being updated.	Action should be taken to correct the accounts by comparing the differences in the relevant balances.

1.6.3 Documentary Evidence not made available for Audit

Audit Observations	Comments of the Council	Recommendation
Due to the non-submission of fixed asset register and updated arrears of income reports, the balances of 04 accounting objects totaling Rs.29.12 million could not be satisfactorily examined during the audit.	The documents are being corrected.	Relevant written evidence should be submitted to the audit to verify the accuracy of account balances.

2. Financial Review

2.1 Financial Results

According to the financial statements submitted, the recurrent income exceeding the recurrent expenditure of the Council for the year ended 31 December of the year under review was Rs.25.70 million, and correspondingly, the recurrent income exceeding the recurrent expenditure of the previous year was Rs.12.72 million.

2.2 Revenue Administration

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

According to the information submitted by the Secretary, the following is the information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year.

2024					2023				
	Source of Revenue	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Taxes	2,387,030	2,399,352	2,450,486	211,472	2,956,600	2,282,625	2,532,302	262,606
(ii)	Rent	10,485,680	9,995,002	9,697,533	756,044	9,846,960	9,712,368	9,929,263	458,575
(iii)	License fee	951,100	1,163,711	1,289,711	8,000	751,200	1,104,040	1,165,478	134,000
(iv)	Other Revenue	7,575,080	9,055,042	8,780,385	1,063,168	7,445,650	11,037,144	10,991,448	788,511
		21,398,890	22,613,107	22,218,115	2,038,684	21,000,410	24,136,177	24,618,491	1,643,692

2.2.2 Performance in collecting Revenue

The following are observations regarding the revenue collection performance of the council.

Audit Observations	Comments of the Council	Recommendation
(a) Assessments and taxes		
(i) Although more than 2 ½ years had passed since the areas were identified and declared as developed areas in terms of Section 134(1) of the Pradeshiya Sabha Act No.15 of 1987, the properties had not been assessed and, the assessment had not been collected by the end of the year under review.	The Assistant Commissioner of Local Government has been informed in writing regarding the information requested by the assessment officers.	Action should be taken to promptly assess the property and collect the assessment tax.
(ii) The progress in collecting acreage tax during the year under review had been as low as 20 percent, and the arrears acreage tax balance, which was Rs.97,206 at the beginning of the year had been increased to Rs.99,672 by the end of the year.	The Governor has been directed to write off the uncollectible balance and action will be taken to recover the arrears amount.	A formal program should be developed and implemented for the prompt recovery of arrears acreage taxes.
(iii) Although 41 business entities operating within the council area of authority had not paid business tax of Rs.0.06 million for the	That the action will be taken to recover the arrears amount.	A formal program should be developed and implemented to recover

year under review, action had not been taken to recover the tax in this regard as per the Section 150(4) of the Pradeshiya Sabha Act.

arrears of revenue within a specific period of time.

(b) Rent

An arrears of rent (including fines) of Rs.821,672 were to be collected from 47 shops in the 07 shopping complexes owned by the council, of which the value of the balances exceeding Rs.5,000 was Rs.799,076.

The buyers did not agree to the assess values and there was a long-term default on payments for three shops.

Arrears of revenue should be collected within a specific period of time and legal action should be taken against shop owners who do not pay taxes.

(c) Other Income

The receivable court fines and stamp duty from the Chief Secretary of the Provincial Council and other authorities for the year under review were Rs.0.15 million and Rs.12.06 million.

That the action will be taken to recover the arrears amounts.

A formal program should be developed and implemented to recover arrears of revenue within a specific period of time.

3. Operational Review

3.1 Performance of functions assigned by the Act

The following are the observations made regarding the performance of the functions that the council was required to perform under Section 3 of the Pradeshiya Sabha Act, namely, to regulate and control matters relating to public health, public utility services and public roads, and to ensure the comfort, convenience and welfare of the people.

Audit Observations	Comments of the Council	Recommendation
(a) Action had not been taken to enact by-laws containing provisions for issuing permits and charging fees for constructions carried out within the council area of authority by the end of the year under review, in accordance with Section 126 (viii)(e) of the Pradeshiya Sabha Act No.15 of 1987.	That the draft has been forwarded to the Commissioner of Local Government.	Action should be taken to promptly enact by-laws and generate revenue for the council.

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| <p>(b) There was no formal program for the management of garbage collected in the council area of authority, and the non-biodegradable garbage collected was dumped at the Boralampotha solid garbage management site and covered with soil about once a month. It was observed that there was a risk of spreading foul odor, contamination of water sources and the spread of epidemic diseases around that land, and the Matara District Central Environmental Authority Office had informed in the year 2025 that the said land was not recommended for maintaining a garbage management project.</p> | <p>That the action are being made to acquire suitable land.</p> | <p>A suitable land should be acquired promptly and a garbage management project should be implemented within a specific period of time.</p> |
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3.2 Operational Inefficiencies

Audit Observations	Comments of the Council	Recommendation
(a) Although a tax equal to one percent of the proceeds from the sale of any land within the limits of a Pradeshiya Sabha is required to be paid to the Pradeshiya Sabha in terms of Section 154(1) of the Pradeshiya Sabha Act No.15 of 1987, the council fund had suffered a loss of Rs.0.09 million due to the non-collection of 01 percent tax on 07 land plots sold in the Pasgoda Pradeshiya Sabha area of authority during the year under review.	Since it is not an auction, the 01 percent fee has not been charged.	In accordance with Section 154(1) of the Pradeshiya Sabha Act, action should be taken to promptly recover the tax receivables to the council.
(b) Although the Council had identified 16 unauthorized constructions done without obtaining the development permits in accordance with Section 28 of Part III of the Urban Development Authority Act, No.41 of 1978 published in the Gazette dated 08 July 2021 within the urban and non-urban limits of the Council area of authority in the previous and review years, further action had not been taken regarding those constructions.	Letters have been sent to notify the authorities to correct those constructions.	Action should be taken to legalize unauthorized constructions in the council area of authority, and unauthorized constructions should be identified at an early stage through field inspections and legal action should be taken.

3.3 Assets Management

Audit Observations	Comments of the Council	Recommendation
(a) Action had not been taken to obtain title deeds for 19 land plots, totaling approximately 17 acres belonging to the council.	Agreed.	Action should be taken to obtain title deeds.
(b) Although the buildings should be constructed only on lands where there is clear title according to Section 1.1.2 of the Finance Commission Circular No.2016/01 dated 30 December 2015, the Council had constructed a building for the production of compost at a cost of Rs.2.21 million during the year under review without acquiring the land where the Boralampotha Garbage Management Centre is located.	That the action will be taken to take over the entire land to the Pradeshiya Sabha.	Action should be taken to immediately settle the land and take it over to the council.

3.4 Procurement Management

Audit Observations	Comments of the Council	Recommendation
(a) Although the contractor had been selected for the first phase of the construction of the first floor of the council office at a contracted value of Rs.38.1 million, the construction had not been carried out as per the contract and only Rs.12.65 million of work had been completed. Once again, when the quotations were called for the second phase of the construction work of this building, the said contractor had submitted a quotation of Rs.46 million, and when a member of the Procurement Committee had not agreed to award the contract to him due to the abandonment of the construction work in the first phase and the damage to the ground floor, the Technical Evaluation Committee had given recommendations falsely stating that the	That the contract was cancelled by mutual consent due to the Covid pandemic and the economic crisis, and that the procurement decision was made after considering the recommendation of the Technology Evaluation Committee.	Procurement decisions should also be considered and implemented, and CIDA should be informed about the contractor's performance.

said contractor had completed the construction of the first phase well that were not in accordance with the provisions of paragraph 7.11 of the Government Procurement Guidelines 2006.

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| (b) | It had not been acted against the contractor in accordance with the provisions of 8.11.1 of the Government Procurement Guidelines 2006 regarding the default in the construction of the first phase. | That the contract was cancelled by mutual consent due to the Covid pandemic and the economic crisis, and that the procurement decision was made after considering the recommendation of the Technology Evaluation Committee. | Actions should be taken in accordance with the Government Procurement Guidelines. |
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3.5 Human Resource Management

Audit Observations

According to the staff plan, it was observed that there were 23 surplus positions in the Sabha as at the end of the year under review.

Comments of the Council

Applications have been submitted to the Commissioner of Local Government for approval.

Recommendation

Review should be conducted regarding the staff requirement and appropriate action regarding surplus positions should be taken.