

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Panadura Urban Council including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of changes in equity / net assets, Cash Flow Statement 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 Section 181(1) of the Urban Councils Ordinance (Chapter 255) 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 Panadura Urban Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the financial statements based 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 Government Institutes, 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 Urban Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council 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 Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Urban Council 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.

- The financial statements of the Urban Council 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.
- 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 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

Audit Observation	Comments of the Council	Recommendation
According to Chapter No. 3.28 of the standard, while preparing the cash flow statement, Rs.82,395,207 should be accounted as surplus for the year, but it was accounted as Rs. 91,723,943 and therefore a difference of Rs. 1,018,930 had been shown in the adjustment of depreciation and loss of fixed asset sale of the year.	That the capital expenditure grants will be removed and the surplus will be correctly recorded in the cash flow statement.	Cash flow statement should be prepared as per standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Necessary adjustments have not been made in the statement of comprehensive income and statement of assets and liabilities for receipts and payments of capital expenditure grants and Capital Expenditure Grant receivable for the year 2023 amounting to Rs.6,000,000 had been recognized in revenue as assigned value from	That it will be recorded correctly in the next year.	Capital grants related to the year should be accounted for.

Government for non-recurrent expenditure in the statement of comprehensive income.

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| (b) | Although the local authorities have decided not to collect the entertainment tax collected from the movie theatres for 02 years by the letter No. CA/06/02/DOT/NFC dated 10 February 2021 of the Secretary of the Ministry of Buddha Sasana Religious and Cultural Affairs and Entertainment tax billing of Rs.600,000 for the year 2022 was accounted as a receivable balance. | That it will be properly accounted for in the next year. | According to the relevant decision, no billing should be done for entertainment tax. |
| (c) | Property plant and equipment revaluation carried out during the year under review along with depreciation and amortization amounting to Rs.15,662,931 had been shown as revaluation profit under the prior year adjustments in the statement of change in equity. | That it will be properly accounted for in the next year. | Should be properly accounted for. |
| (d) | Rates and taxes discount given amounting to Rs. 713,668 had shown as receivable from exchange transactions. | That the previously given discounts of rates and taxes rebates will be correctly indicated in the notes. | -Do- |
| (e) | Depreciation related to the year 2023 for road culverts and bridges and library books had been overstated by Rs.827,485 and Rs.152,851 respectively. | That the depreciation will be calculated and corrected to net book value. | . |
| (f) | During the revaluation of the computer software in the year 2023, the accumulated depreciation of Rs.405,977 had not been removed and Rs.102,539 related to the year 2023 had been understated. | That will be corrected in the coming year. | Should be properly accounted for |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) There was a difference of Rs.3,229,825 in the balance relating to an account object shown in the financial statements with the corresponding schedule.	The Arrears Rates and Taxes Balance has been defined in the Schedules as the total of the balance of the Arrears over Collection Account and the balances	The reasons for the changes should be found and corrected.

of the Arrears rates and taxes Account.

- (b) according to the notes, the value of receivables from non-exchange transactions was Rs. 183,055,411, but in the financial statements, it was stated as Rs.189,055,410 overstating by Rs,6,000,000. That this will be corrected in the next year. Must be correctly accounted for.

1.7 Non-Compliance

1.7.1 Non-Compliances with Laws, Rules, Regulations and Management Decisions

Instances of non-Compliances with laws, rules, regulations and management decisions are shown below.

Reference to Laws, Rules, Regulations	Non-Compliance	Comments of the Council	Recommendation
Tourism Development Act No. 14 of 1968 in terms of Section 164(2) of the Urban Council Ordinance.	No charges had been collected from a hotel registered under the Tourism Board and statements of account had not been obtained to verify the amount.	That the action will be taken in the future in this regard.	Action should be taken as per Urban Council Ordinance.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2023 amounted to Rs.82,395,207 as compare with the excess of revenue over expenditure amounted to Rs.72,451,067 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 given by the secretary 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	2023				2022			
	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	73,000,000	73,248,009	57,329,706	15,918,303	74,860,300	77,321,357	54,822,971	22,498,385
Rent	6,621,800	7,833,400	6,774,668	10,171,544	10,152,100	6,820,587	2,747,037	4,073,550
License Fee	421,000	460,000	460,000	-	1,797,100	458,500	458,500	-
Other Revenue	1,660,000	1,934,200	1,944,150	59,140	236,078,610	1,201,679	1,201,679	-
Total	81,702,800	83,475,609	66,508,524	26,148,987	322,888,110	85,802,123	59,230,187	26,571,935

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) According to the age analysis report, the arrears rates and taxes at the beginning of the year under review had been Rs.37,826,699, and out of this a sum of Rs.18,226,380 or 48 per cent had not been collected as of 31 December 2023.	That the arrears due are being recovered.	The arrears should be recovered promptly.
(b) According to the age analysis report, the arrears rates and taxes at the end of the reviewed year had been Rs. 39,639,846, and in that arrears, a sum of Rs.35,715,916 belonging to between 1 year and 05 years and Rs. 3,923,930 belonging to above 05 years, out of which, the outstanding balance to be collected from 101 assessment units exceeding Rs.50,000 was Rs.10,109,384.	That the arrangements have been made to carry out a special revenue collection program and a property freeze program to recover arrears.	- Do -
(c) According to the shop rent information report, the income to be collected from the shop rent in the year under review amounted to Rs.22,202,312 and a sum of Rs.9,961,208, which was 45 per cent, should be collected by 31 December 2023.	The uncollected percentage as on 31 December 2023, has been 44.87 per cent.	The arrears should be recovered promptly.

- (d) The stamp duty that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December 2023 was Rs.84,744,229. That the necessary steps are being taken to recover the arrears due. Efforts should be made to recover stamp duty promptly.

3 Operational Review

3.1 Performing of functions assigned by the Act

Audit Observation	Comments of the Council	Recommendation
Although the number of applications received in the year 2023 regarding building constructions had been 69 and 06 for residential and business respectively, the number approved has been 54 and 03 respectively, and the number of compliance certificates given on 31 December 2023 was only 06 for residential.	Applicants are informed of the deficiencies in the unapproved applications, and they will be referred to the Planning Committees for re-approval in such a way that they rectify the deficiencies.	Applications should be processed promptly.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Advance amount of Rs.1,075,318 continuing from before the year 2000 had also not been collected even in the year under review.	That a request has been made to the Assistant Commissioner of Local Government to seek approval to write off from the books.	Action should be taken to recover advances.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
The General Meeting dated 01 August 2019 had approved to cancel the General Meeting decision dated 02 August 2018 to charge the same amount of rent charged in 2017 for the year 2018 without implementing the new valuation for the year 2018 for the collection of rent for shops on Railway Road and Market Road and to charge shop rent from 01 January 2018 according to the new valuation of the year 2018 and to enter into agreements from that date to 31 December 2019 and to collect arrears from that date.	That action has now been taken to collect the arrears of rent as per the new valuation.	Arrears should be collected promptly.

But due to shop owners had not like this proposal, shop rents were charged based on the old valuation and the council had not taken steps to collect the money according to the new valuation.

3.4 Transactions with Contentious Nature

Audit Observation	Comments of the Council	Recommendation
A fuel tank with a capacity of 9500 litres had been purchased on 30 September 2022 from a private company for Rs.2,165,000, but permission for ordering and storing oil had not been obtained from the Petroleum Corporation as of the audit.	That the purchase of fuel will be done as soon as it is approved.	Oil tanks should be used efficiently

3.5 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Although a private company had been assigned on 23 June 2020 for the repair of the container with a toilet system which was donated to the Panadura Urban Council to be placed on the beach of Panadura for a sum of Rs.189,040, the project was temporarily stopped in September 2020. But the project had not been implemented again from the year 2020 until now, and by now the container parked on the railway station road had decayed to the point of being unusable.	As decided by the General Assembly on 10 September 2020 on the recommendation of the Industry Committee for re-analysis of the estimate, the journal has been withdrawn.	Efforts should be made to utilize idle assets.
(b) The salary and human resource management software purchased in the year 2017 from a private company for Rs.295,000 had not been implemented until now. Because of this, in addition to the purchased value for the software system with 07 subjects to computerize the Urban council's office work, a sum of Rs. 178,500 had also been paid as service charges in the year 2022 without using it.	As per Section 5.2 of the Service Agreement, generally 20% of the total value of the Software shall be paid annually as Service Fees after the sale of the Software, It has been informed by the concerned institution that 5% of the total value of the software has been charged annually for the service provided by that institution and if the service fee is paid for the value of each software obtained, a service fee of 10% of the total value will be charged annually and accordingly, payment of 5%	Arrangements should be made for efficient use of the software system.

service fee of the total value of the system is beneficial to our company.

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| (c) | The cash balance of Rs. 5,293,640 maintained by the People's Bank on behalf of the Urban Development Authority had not been used for productive purposes with the approval of the Urban Development Authority. | For this, an estimate of Rs.5,000,000 has been prepared and initial steps have been taken to complete the ground floor work of Thanthirimulla Library in the year 2024, and for this purpose, the Urban Development Authority has been informed to release the money in the city development account on 08 April 2024 for this purpose. | It should be used for productive purposes with the approval of the Urban Development Authority. |
| (d) | The value of 6 lands owned by the Panadura Urban Council had not been recognized and accounted for. | That there have been problems to claim the right in relation to these lands and that settlement work is currently being carried out. | The value of the lands owned by the council should be recognized and accounted for |

3.6 Human Recourse Management

Audit Observation	Comments of the Council	Recommendation
The employee loan balance as of 31 December 2023 has been Rs.4,750,971, while the uncollectible and non-detailed loan balance was Rs.521,639. As on 31 December 2023, the balance due from transferred officers has been Rs.1,274,706, the balance due from retired officers has been Rs.1,745,121 and the balance due from deceased and retired officers has been Rs.1,209,505.	Arrangements are being made to recover outstanding account balances.	Arrangements should be made to recover outstanding balances.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
Although from the 2023 budget of the Panadura Urban Council allocated a sum of Rs.8,919,200for non-recurrent expenses, actually the expenditure amounted to only Rs.2,166,445 or 24 per cent compared to the budget.	That this remaining amount has been reserved for creditors.	The budget should be used as a control tool.