

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Padiyathalawa 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 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 financial statements give a true and fair view of the financial position of the Padiyathalawa 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 Scope of Audit (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 includes 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 Policies

Audit Observation	Comments of the Council	Recommendation
A note on the accounting policies used in the preparation of the financial statements was not presented with the financial statements.	Accepted. Will be presented in the financial statements for 31 December 2025.	The accounting policies followed in preparing the financial statements should be disclosed along with the financial statements.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Construction works valued at Rs.33,913,848, carried out under the Provincial Development Assistant Project and the Provincial Special Development Main Projects during the year under review, had not been capitalized.	Action will be taken to capitalize that value in the year 2025.	Capital expenditure should be accounted for correctly.
(b) The fixed deposit interest income of Rs. 1,250,000 receivable as at 31 December of the year under review was not accounted for.	Accepted. The matured fixed deposit interest will be included when received in 2026.	The interest income should be accounted for correctly.
(c) The value of the goods purchased with the assistance received from the District Secretariat and the Provincial Assistant Commissioner's Office during the year under review had not been accounted for.	Accepted. The value of a computer and a printer received as donations in the year 2024 has not been entered in the books. It is stated that they will be included in the final accounts for the year 2025 through a journal entry.	Assets received by the council should be properly accounted for.
(d) The balance of Rs.1,608,748 in the bank account relating to Provincial Development Assistance Projects as at 31 December of the year under review was not disclosed in the financial statements.	Accepted. That the shortcomings occurred because the final accounts were prepared by untrained officers who were transferred in during this year.	All bank account balances held by the council must be accurately accounted for.

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| (e) Court fine income receivable of Rs.308,000 for the year 2023 had not been accounted for. | That the court fine income of Rs.308,000 has been omitted. | The income receivable should be accounted for correctly. |
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1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) There was a difference of Rs.17,467,909 between the balances as per the schedules and the balances as per the financial statements in respect of 03 accounting subjects as at 31 December 2024.	The amount stated as Rs.17,100 was the amount of library deposits received in the year 2024. The balance as at 01 January 2024 was Rs.157,215, and the balance as at 31 December 2024 was Rs.174,315. The balance of the LDSP account is Rs.1,609,248.	The reasons for the discrepancy should be found and corrected.
(b) There was a discrepancy of Rs.16,086,925 between the value obtained by adding the cash and cash equivalents at the beginning of the year to the correct net cash flow generated during the year, and the cash and cash equivalents at the end of the year, in the Cash Flow Statement for the year under review.	Accepted. It is stated that the shortcomings occurred because the final accounts were prepared by untrained officers.	The cash flow statement should be prepared correctly.

1.6.4 Lack of Written Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
A satisfactory verification of 12 accounting items, totalling Rs.687,667,170 as stated in the financial statements, could not be performed due to the non-submission of land deeds, schedules, property inspection reports, balance confirmations, and updated fixed asset registers.	That the balances are outstanding balances from a long time ago.	Evidence confirming the account balances shown in the financial statements should be submitted.

1.7 Non-compliance

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

	Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Pradeshiya Sabha (Finance and Administration) Rules, 1988			
	(i) Rule 5(xii)	Steps had not been taken to obtain security deposits from the officers responsible for financial and stores.	Action will be taken in the future.	Financial and administrative rules should be followed.
	(ii) Rule 218	Although all lands and buildings owned by the Sabha should be inspected at least once a year, no action had been taken accordingly.	Action will be taken in the future.	Financial and administrative rules should be followed.
(b)	Paragraph 3 of Public Administration Circular No. 30/2016 dated 29 December 2016	Although a vehicle fuel consumption check should have been conducted, it was not done for 14 vehicles belonging to the Sabha.	Action will be taken in the future.	Action should be taken in accordance with the circular.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.4,746,295 compared to the excess of income over recurrent expenditure amounted to Rs.4,913,718 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 President of the Sabha, 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	Estimated Revenue	2024			Estimated Revenue	2023		
		Revenue billed	Revenue Collected	Arrears as at 31 December		Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
i. Rates and Taxes	236,000	294,000	194,540	99,460	206,000	202,250	202,250	-
ii. Rent	6,967,000	7,248,474	7,386,111	1,934,076	7,182,000	6,182,302	6,153,712	1,924,114
iii. License Fee	484,000	692,700	1,441,392	475,608	322,000	484,325	484,325	-
iv. Other Revenue	1,173,500	1,173,500	3,118,967	24,115	2,464,000	2,047,186	2,047,186	24,115
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Total	8,860,500	9,408,674	12,141,010	2,533,259	10,174,000	8,916,063	8,887,473	1,948,229
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2.2.2 Performance in Collecting Revenue

The following are observations made on the performance in collecting revenue.

	Audit Observation	Comments of the Council	Recommendation
(a)	The outstanding shop rent income as at 31 December of the year under review was Rs.1,934,076, which was due for the period from 2017 to 2024.	Accepted. That action is being taken to recover the outstanding revenue, to repossess the stalls, and to re-tender the sealed stalls.	Steps should be taken to promptly recover the outstanding revenue, and legal action should be taken against those who default on payments.
(b)	The court fines and stamp duty revenue due from the Chief Secretary of the Provincial Council and other authorities as of 31 December 2024 was Rs.369,667.	Not answered.	Steps should be taken to recover the arrears revenue.

3. Operational Review

3.1 Performing the Functions assigned by 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 Council under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comments of the Council	Recommendation
Matters requiring the imposition of by-laws had not been identified and steps had not been taken to impose by-laws under Section 126 of the Pradeshiya Sabha Act, and as only 05 by-laws had been imposed as at 31 December 2024.	I will take steps to enact by-laws in the future. By-laws have been enacted for the issues we have identified.	The proceedings of the council should be legalized by enacting by-laws.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The Padiyathalawa Pradeshiya Sabha had been operating the solid waste management centre maintained in the Kirawana area without obtaining an Environmental Protection Licence (EPL) from the Central Environmental Authority, as required under the National Environmental Act, No. 47 of 1980, as amended by Acts No. 56 of 1988 and No. 53 of 2000.	Action will be taken to obtain the license as soon as the survey report is provided by the Mahaweli Office.	Steps should be taken to promptly obtain the Environmental Protection Licence.
(b)	The cab belonging to the Pradeshiya Sabha, which met with an accident in the year 2023, was still parked at the Kundasale Automobile Institution as of the date of this report. Although two years had passed since the incident, action had not been taken in accordance with Financial Regulations 101 to 110 regarding the incident.	investigations are ongoing	Action should be taken in accordance with the Financial Regulations.

3.3 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	According to the financial statements of the Pradeshiya Sabha, steps had not been taken to prepare schedules for the fixed asset classifications, namely Land and Buildings, Plant and Machinery, and Furniture and Fittings, valued at Rs. 676,235,437, to identify the value of each item, and to include them in the fixed asset registers.	Action will be taken in the future	Action should be taken to include it in the Fixed Assets Register of the Sabha.
(b)	The value of 36 cemeteries belonging to the Pradeshiya Sabha had not been identified and accounted for.	It has been referred for valuation.	The values should be identified and accounted for.
(c)	The Sabha had not taken steps to repair and reuse 8 vehicles in its possession, or to hand over the irreparable vehicles to the relevant institutions for auction.	action will be taken in the future.	Action should be taken for disposal or auction.

3.4 Human Resource Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Although the Human Resource Development Plan to be prepared by the institution should be prepared at the beginning of the year, in accordance with paragraphs 2 to 6 of Public Administration Circular No. 02/2018 dated January 24, 2018, and paragraphs 2 to 4 of Public Administration Circular No. 02/2018 (i) dated November 30, 2023, the Pradeshiya Sabha had not prepared and implemented such a plan during the year under review.	That a Human Resource Plan will be prepared for the year 2025.	Action should be taken in accordance with the Circular.
(b)	There were 8 vacancies in 6 positions in the Council, and one post of Revenue Inspector was in excess of the approved cadre as at the end of the year under review.	Not answered.	Steps should be taken to fill the vacancies, and action should be taken to get the excess employees approved.
(c)	According to the employee loan register, loan balances totaling Rs.226,570 belonging to two deceased officers and one transferred officer had remained unrecovered for a period ranging from 2 years to over 5 years.	Action is being taken to recover Rs. 213,250 from one person's death gratuity, and no information has been found so far regarding the other person's loan balance according to the documents available in the office. It is stated that action will be taken to correct this in the future.	Action should be taken to promptly recover the outstanding loan amounts.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Council	Recommendation
Recommendations for improving organizational operational processes and enhancing performance had not been prepared by internal audit in accordance with Section 40 of the National Audit Act No. 19 of 2018 and Financial Regulations 133(1).	Accepted. Action will be taken in the future.	Recommendations for improving organizational operational processes and enhancing performance should be prepared and implemented in accordance with the Act.

4.2 Audit Committee

Audit Observation

In accordance with the Internal Audit Guidelines Circular No. DMA/01–2019 dated 12 January 2019 of the Department of Management Audit, the Sabha had not established Audit and Management Committees and held committee meetings during the year under review.

Comments of the Council

Accepted. Action will be taken in the future.

Recommendation

Steps should be taken to establish an Audit and Management Committee and hold meetings.

4.3 Budgetary Control

Audit Observation

When comparing the budgeted income and expenditure and the actual income and expenditure of the Pradeshiya Sabha for the year under review, a variance was observed ranging from 6 per cent to 62 per cent for 5 income items, and from 0.5 per cent to 963 per cent for 7 expenditure items, indicating that the budget had not been used as a financial guide.

Comments of the Council

Not answered.

Recommendation

The budget should be used as a financial guide.

4.4 Sustainable Development Goals

Audit Observation

The Sabha had not taken sufficient measures to collect the necessary data and provide the necessary financial provisions for achieving the Sustainable Development Goals and Objectives in accordance with the Sustainable Development Act No. 19 of 2017.

Comments of the Council

As the financial status of this Sabha is minimal, we do not have sufficient funds to allocate for development programs. It is stated that projects are currently being carried out under the LDSP project.

Recommendation

The Sabha should take action to collect the necessary data and provide the necessary financial provisions to achieve the sustainable development goals and objectives as per the circular.