

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pottuvil 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 Pottuvil 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 Statement)

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 Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The fuel expenses payable in the year under review amounting to Rs.177,311 had not been disclosed in the financial statements.	The financial statements will be revised and corrected, and care will be taken to ensure that such errors do not occur in the future.	Adjustments should be made and the expenses should be disclosed correctly.
(b) The value of 601 books, bookshelves and computers, valued at Rs.212,734, received as donations in the year 2022 and during the year under review, had not been disclosed in the financial statements.	-Do-	All assets should be included in the financial statements.
(c) 264 lands and buildings used by the Sabha had not been revalued from 1992 to the year under review and accordingly their actual value had not been stated in the financial statements.	-Do-	Land should be revalued and its actual value should be disclosed in the financial statements.
(d) The value of the vehicles belonging to the Sabha had not been revalued and their actual value had not been disclosed in the financial statements.	-Do-	The value of vehicles should be revalued and their actual value should be disclosed in the financial statements.

1.7 Non-compliance

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

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 134 of the Pradeshiya Sabha Act No. 15 of 1987	Steps had not been taken to periodically identify the areas within the Sabha area that are	The Sabha has identified developed areas for levying rates and taxes on properties within the	Steps should be taken to identify the sources of rates and taxes to

liable for rates and taxes and to increase revenue. Sabha area. Further steps are being taken to levy rates and taxes on such developed areas in the future. be levied and increase revenue.

(b) Pradeshiya Sabha
(Finance and
Administration)
Rules, 1988

(i) Rule 5(xii) Steps had not been taken to obtain sufficient security from officers who sign cash and cheques, revenue collection officers and officers dealing with stores, etc. Steps will be taken to recover the security deposits in the future. Action must be taken to recover the security deposits

(ii) 218 රීතිය Steps had not been taken to inspect all the Sabha's lands and buildings at least once every year. The preliminary work of collecting property taxes in the Pottuvil Pradeshiya Sabha area is underway. Accordingly, property valuations are being carried out for the purpose of collecting property taxes. Rules should be followed.

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.31,686,069 compared to the excess of income over recurrent expenditure amounted to Rs.10,495,411 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, Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

		2024				2023			
	Source of Revenue	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.
(i)	Rates and Taxes	850,000	850,000	30,686	819,314	3,500,000	3,500,000	130,000	3,370,000
(ii)	Rent	15,220,000	38,563,070	12,413,900	26,149,170	19,750,000	34,284,358	10,941,288	23,343,070
(iii)	License Fee	4,910,000	4,910,000	2,318,750	2,591,250	5,010,000	5,010,000	4,062,720	947,280
(iv)	Other Revenue	<u>31,020,000</u>	<u>31,020,000</u>	<u>37,483,408</u>	<u>(6,463,408)</u>	<u>9,205,000</u>	<u>9,205,000</u>	<u>4,793,278</u>	<u>4,411,721</u>
	Total	52,000,000	75,343,070	52,246,744	23,096,326	37,465,000	51,999,358	19,927,286	32,072,071

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 market stall rent arrears as at 31 December of the year under review amounting to Rs.6,578,220, of which Rs.171,520 was due from 11 tenants for 10 to 20 years, Rs.2,479,000 was due for up to 02 years, and Rs.2,392,000 was due in the year under review.	Action is being taken to recover the arrears and collections are being made.	Action should be taken to recover the arrears promptly.
(b)	Out of the market stall rent arrears as at 31 December of the year under review amounting to Rs.9,491,838, steps had not been taken to recover Rs.4,637,377 which was arrears for more than 25 years and Rs.4,643,710 which was arrears for more than 02 years.	Steps are to be taken to calculate revised values regarding rent and include them in the annual estimates accordingly.	Steps should be taken to promptly recover the arrears of shop rents.
(c)	The Sabha had not taken steps to periodically assess the rent charged for the shops owned by the Council in accordance with the current market value and collect the rent accordingly.	It has been decided to enter into new agreements with tenants in the future and to make amendments to the rental value.	Necessary measures should be taken and implemented.
(d)	The Sabha had not taken steps to conduct a field survey to ascertain the number of business establishments, collect accurate information, complete and maintain records, and calculate revenue in a manner that maximizes revenue from trade license fees. Due to this reason, the number of business establishments from which the Sabha could earn annual revenue fluctuated, as 1,020, 802, 830,	Trade licenses will be issued to business establishments only after examining their health and acceptability.	Steps should be taken to issue the trade license in accordance with the prescribed procedures.

864, 741, and 443 for the years 2018, 2019, 2020, 2021, 2022, and 2023, respectively.

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| (e) | Steps had not been taken to issue trade licenses to 238 business establishments. | That care would be taken to ensure that such errors do not occur in the future. | The relevant shops should be inspected and licenses should be issued. |
| (f) | According to the Pradeshiya Sabha Act, No. 15 of 1987, although applications for the reimbursement of stamp duties on land transactions should be sent to the Registrar General at the end of every year, the Sabha had not taken steps to request and obtain the stamp duties for the reviewed year from the Registrar General within the stipulated time frames. | Steps will be taken to examine these matters in the future and to obtain reimbursement without delay. | Action should be taken according to the provisions of the Act. |

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.

3.1 Uneconomic Transaction

Audit Observation	Comments of the Council	Recommendation
A sum of Rs.836,500 was paid for 88 hours of solid waste disposal fees, however, the number of hours the JCB machine was used for these payments could not be confirmed. Furthermore, although the Sabha owned a JCB machine, it had been damaged since December 08, 2021, and the Sabha had not taken steps to repair it, resulting in a loss of potential income for the Sabha.	Appropriate action will be taken in this regard in the future.	When obtaining the services of a JCB machine, payments should be made after confirming the number of hours the machine was used, and steps should be taken to promptly repair the Sabha's machine and put it into service.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	It was observed that 34 roads that were damaged to obtain water connection from the National Water Supply and Drainage Board, had not been renovated, and that these roads had been extensively damaged and that a need for complete reconstruction may arise in the future.	Steps will be taken to recover the deposit for obtaining the water connection or to repair the roads	Steps should be taken to promptly repair the damage to the roads.
(b)	Steps had not been taken to maintain records regarding the rental of the water bowser and gully bowser belonging to the Sabha and their use in the daily activities of the Sabha.	Steps will be taken to document these matters in formal records in the future and to rent out the water bowser and the gully bowser.	Steps should be taken to document relevant activities and streamline the functions of the Sabha.
(c)	The Council had not taken steps to maintain records including matters such as the number and size of notice boards in institutions.	Proper documents will be established in this regard in the future and information regarding notice boards at business locations will be documented, and steps will be taken to increase the Sabha's income by establishing by-laws.	Records should be maintained and steps should be taken to increase the Sabha's income by establishing bylaws and obtaining proper approval.
(d)	Agreements entered into for 33 stalls in the public market did not contain the signatures of the tenants, and according to the conditions of those agreements, no arrears were recovered from 17 tenants during the reviewed year. The Sabha had been unable to take legal action regarding the rent arrears of Rs. 1,608,000 that should have been recovered.	Formal action will be taken regarding these matters in the future.	Steps should be taken to formally sign the agreements and recover the revenue that should be collected.
(e)	The Sabha had not taken steps to invest the balance of Rs.925,064 in 03 bank current accounts, which had been inactive for over 08 years, in income-generating sources.	-Do-	Steps should be taken to utilize excess funds in revenue-generating sources with proper approvals.

(f)	The Sabha had not taken steps to transfer the ownership of the double cab vehicle, which was provided to the Sabha by an international volunteer organization in 2013, to the Sabha even up to the end of the reviewed year.	-Do-	Steps should be taken to take over ownership of the vehicle and steps should be taken to obtain the relevant vehicle revenue licenses within the prescribed period.
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3.3 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
3.3.1	Solid Waste Collection Fees		
	No Proper records had been maintained for the collection of solid waste fees from shops, restaurants, hotels, and other business premises during the year under review and previous years. Due to this, instances of corruption and irregularities were prevalent.	Steps will be taken in the future to establish and implement formal documents regarding these matters.	Detailed records of business premises, houses, and other entities from which solid waste is collected should be maintained, and steps should be taken to levy fees.

3.4 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	The immovable and movable properties owned by the Council had not been recorded in General 22 of the Fixed Assets Register Even at the end of the year under review.	Appropriate action will be taken in this regard in the future.	Steps should be taken to document all fixed assets with their cost and revalued values in the General 22.
(b)	The Sabha had not taken any action as of the date of audit to rectify the deficiencies observed in the goods surveys conducted at the Pradeshiya Sabha office, public libraries and reading rooms, earth filling premises, slaughterhouse, etc. for the years 2021 and 2022 and to implement the recommendations given by the Board of Survey.	-Do-	Steps should be taken to implement the recommendations made by the Board of Survey.
(c)	The coconut oil production materials, which were purchased for Rs.14,693,782 in the year 2023, were stored in an unsafe location because the production centre had not been established even by 07 April 2025.	A guard will be appointed to the coconut oil production centre to protect the equipment. The preliminary work for the construction of elephant fences is currently	Steps should be taken to implement it without delay.

Accordingly, the objectives of the project were not met. underway.

3.5 Defects in Contract Administration

Audit Observation

A major solid waste disposal center was constructed at Sarvodaya Puram in the council area during the year under review at a cost of Rs.9,119,642 from the financial allocation of the Ministry of Home Affairs. During the field inspection conducted there, it was found that the elephant protection fence had not been constructed properly and that the building had been damaged by elephants.

Comments of the Council

Approval will be given to construct the elephant fence, to continue the organic fertilizer production work on this land, and to release the security deposit after repairing the damaged pipes.

Recommendation

Steps should be taken to properly construct the elephant fence.

3.6 Vehicle Utilization

Audit Observation

Vehicle revenue licenses and insurance coverage had not been obtained for 15 vehicles owned by the Sabha for the period from 2009 to 2020.

Comments of the Council

Insurance coverage has been obtained for those vehicles. Appropriate steps will be taken to obtain vehicle revenue licenses in the future.

Recommendation

Urgent steps should be taken to obtain vehicle revenue licenses and insurance coverage for the relevant year.

3.7 Abandoned Operations

Audit Observation

The sports equipment purchased for Rs.1,997,500 from the Regional Development Grant Program for the construction of the Al Huda Children's Park without conducting a feasibility study was not protected from the sun and rain and its lifespan was reduced, and the sports equipment was damaged and remained unsafe. Also, since the riverbank where this children's park is located is a place where crocodiles breed, it did not serve as a safe place for the public, the objectives of the project had not been achieved.

Comments of the Council

The estimate report for the construction of this park did not include any provision for safety arrangements. The proposals submitted to implement the LDSP program to protect the playground equipment in the park, such as tents and other safety measures, could not be installed as they were unsafe. Steps will be taken to do so in the future.

Recommendation

The safety of the children's park should be ensured and the existence of play equipment should be taken into consideration to achieve the objectives.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

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.

Comments of the Council

Appropriate action will be taken in this regard in the future.

Recommendation

Internal audit should make recommendations to improve the operational processes of the Sabha and enhance its performance.

4.2 Environmental Issues

Audit Observation

The Sabha had not taken steps to renew, cancel, refuse or suspend the expired licenses of 23 industrial establishments 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. Furthermore, environmental licenses had not been obtained for the land used by the Sabha for the collection of solid waste, the slaughterhouse, etc., even by the end of the year under review.

Comments of the Council

Steps will be taken to collect information about institutions that require environmental permits and register them.

Recommendation

Steps should be taken to identify industrial establishments that are required to obtain environmental permits in accordance with the Act and update their documents.

4.3 Sustainable Development Goals

Audit Observation

No action had been taken to identify sustainable development goals and establish indicators for measurement.

Comments of the Council

That the steps will be taken to establish indicators for the Sabha's goals in the future and provide financial provisions from the budget.

Recommendation

Steps should be taken to establish indicators and make provisions in the budget so that the targets can be achieved according to the circular.