

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sethawaka Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of assets and liabilities as at 31 December 2024 and Statement of Comprehensive Income, Statement of changes in net assets/ equity , Cash Flow statement for the year then ended and notes to the financial statements including a 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 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 Sethawaka Pradeshiya Sabha as at 31 December 2024, and its financial performance and 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 regarding the financial statements 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 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 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 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 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 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 in relation to the preparation of the Financial Statements

1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non-compliance with reference to the relevant standard	Comments of the Sabha	Recommendation
(a) Contrary to paragraph 3.26 of Chapter 3 of the Standard, As Fixed deposits of Rs. 88,687,301 with a maturity of 6 months and above included in the cash and cash equivalents at the beginning of the year in the cash flow statement, cash and cash equivalents at the beginning of the year were overstated by an equivalent amount.	No answers were given.	Financial statements should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities.
(b) Net cash flow generated from investing activities was overstated by Rs. 28,739,077 due to the fact that, Rs. 10,226,982 invested in fixed deposits during the year under review and Rs. 18,512,095 invested in the Urban Development Authority Deposit Account was not included as a cash flow under investing activities in the cash flow statement in contravention of paragraph 3.29 of Chapter 3 of the Standard.	do	do
(c) Net cash flow generated from operating activities was overstated by Rs.104,637,389, as Rs. 5,035,107 had been adjusted instead of adjusting by Rs. 99,602,282 for the total of 03 items under the change in working capital included in	No answers were given.	Financial statements should be prepared in accordance with the Public Sector Accounting

	operating activities in the cash flow statement contrary to paragraph 3.31 of Chapter 3 of the Standard.		Standards for Local Authorities.
(d)	Contrary to paragraph 6.13 of Chapter 6 of the Standard, assets purchased are not depreciated during the year, regardless of the date of purchase in accordance with paragraph 3.5 of the Accounting Policy Disclosures included in the Council's financial statements and the asset was depreciated for the entire year in which the disposal was made.	No answers were given.	Financial statements should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities.
(e)	As per paragraph 9.9 of Chapter 9 of the Standard, transfers from government for capital expenditure should be recognized in other comprehensive income as capital expenditure grants identified in the surplus/deficit. Thus, Rs. 7,054,214, which should have been recognized in other comprehensive income, had been stated as Rs. 70,542,145.	do	do
(f)	Although a survey of billboards for the year 2024 should be conducted at the beginning of the year, as the Sabha had not done so, it was not possible to calculate the inflow of billboard revenue receivable for the year under review in accordance with paragraphs 10(2) and 10(3) of Chapter 10 of the Standard.	The billboard survey for the year 2025 has now been completed.	A billboard survey should be conducted at the beginning of each year to identify billboard revenue.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the carrying value of property, plant and equipment relating to 14 items as at 31 December of the year under review should be Rs. 873,289,378, the carrying value of property, plant and equipment as at the end of the previous year was Rs.735,694,922 in the financial statements and was also shown as the value as at the end of the year under review, resulting in an understatement of property, plant and equipment by Rs. 137,594,456.	That the 2025 financial statements will be corrected and accounted.	Must be accounted.

(b) The surplus for the year was overstated by that amount due to the debit of Rs. 2,252,792 to the Consolidated Fund without recognizing it as an expense for the year.	That steps will be taken to ensure accurate disclosure and accounting when preparing the 2025 financial statements.	Must be accounted correctly.
(c) Due to the inclusion of office equipment worth Rs. 2,503,684 purchased in the year under review in the computer account, office equipment was understated by that amount and computers were overstated by that value.	That the accounting of office equipment of Rs. 2,503,684 in the computer account be corrected.	Assets should be identified and accounted under the correct classifications.
(d) Due to the accounting of office equipment purchased at Rs. 419,286 in the year under review as utensils and equipment, the value of office equipment was understated and the value of utensils and equipment was overstated.	That the financial statements for 2025 are being properly accounted.	Assets should be identified and accounted under the correct classifications.
(e) Although the depreciation of property, plant and equipment for the year under review was Rs. 33,308,215, the surplus was overstated by Rs. 4,734,358 as it was stated as Rs. 28,573,857 in the financial statements.	That the financial statements for 2025 are being properly accounted.	Depreciation of property, plant and equipment should be accurately calculated and accounted.
(f) Although the annual billing total for 07 revenue items in the year under review was Rs. 49,823,817, the surplus for the year was understated by Rs. 2,533,564 due to the fact that only Rs. 47,290,253 of the total received in cash was accounted.	do	Revenues should be accurately identified and accounted.
(g) Although the transfers made by the government for capital expenditure should be recognized primarily as other comprehensive income in the amount of Rs. 121,500,918 in terms of paragraph 9.9 of the Sri Lanka Public Sector Accounting Standard for Local Authorities, other comprehensive income was understated by Rs. 50,958,773, due to the recognition of capital grants received by the Sabha during the year amounting to Rs. 70,542,145 under other comprehensive income.	do	Should be accounted in accordance with the standard.

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| (h) | The revenue was overstated by Rs. 57,819,764 due to the fact that the capital grants received during the year were Rs. 70,542,145 instead of Rs. 12,722,381 as transfers made by the government for non-recurring expenses in the comprehensive income statement. | That the financial statements of 2025 are being properly accounted. | Accounting should be done in accordance with the standard. |
| (i) | Net assets were understated by Rs. 108,778,537 due to the non-inclusion of Capital expenditure grants received during the year recognized under other comprehensive income amounted to Rs. 121,500,918 and capital expenditure grants of Rs. 12,722,381 identified in the surplus/deficit in the statement of changes in equity. | do | Financial statements should be prepared accurately. |
| (j) | The surplus was overstated by Rs. 663,265 due to the accounting of Rs. 31,105 for damages to public property and Rs. 632,160 for service charges (garbage disposal) as revenue. | That accounting deficiencies will be addressed in the preparation of the 2025 financial statements. | The revenue should be identified accurately. |
| (k) | The surplus was understated by Rs. 1,437,452 due to the fact that library membership fees of Rs. 116,452 and course fees of Rs. 1,321,000 were not taken as revenue in the comprehensive income statement from the relevant ledger accounts. | do | do |

1.6.3 Unreconciled control accounts or records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs. 549,141,918 between the total assets and liabilities of the Sabha as per the financial statements as at 31 December in the year under review were Rs. 1,433,002,307 and as per the schedules the total was Rs. 883,860,389,	No answers were given.	Steps should be taken to identify and correct the discrepancies.

1.7 Non- Compliances

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

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a)	Section 78 (1) of the Local Councils Act, No. 15 of 1987	There was a a strong stench in the Kosgama Public Market area due to the use of betel leaf spitting and for sanitation purposes in the surrounding area. Also, the paved area behind the market was in a very dirty condition, and the wire plates covering the drainage system there were rusted, decayed, and broken, creating a dangerous situation.	No answers were given.	Action should be taken in accordance with the Local Council Act.
(b)	Paragraph 2(i) of Treasury Circular No. 02/2017 dated 21 December 2017	A cab received from the Kotikawatta Pradeshiya Sabha has not yet been taken over in the name of the Sabha.	No response has been given.	Steps should be taken to take over in the name of the Sabha as per the Treasury circular.
(c)	Urban Development Authority Planning Circular No. 15 dated 18 November 1993	Although, when sufficient funds accumulate in the bank account maintained for urban development of local government institutions, they can be used for an identified project with the approval of the Urban Development Authority, the amount of Rs. 18,512,095 in the bank account had not been used for development activities.	No response has been given.	Actions should be done in accordance with the Urban Development Authority Planning Circular.
(d)	Paragraphs 5 and 6 of the Local Government Commissioner's	Although the agreements must be renewed every 3 years from the date of the agreement for each	do	Arrangements should be made to update the agreements in

Circular No. building for which a lease is accordance with
13/2016/(i) dated 3 entered into, 82 out of 99 the circular.
December 2020 shops in Hanwella
Subdistrict and 5 out of 59
shops in Padukka
Subdistrict had not taken
steps to update their
agreements.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.164,136,809 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 14,928,217 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 presented by the secretary the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sours	2024				2023			
	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.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and taxes	36,233	25,267	21,559	3,708	41,157	22,143	13,683	8,460
(ii) Rent	36,346	33,246	32,003	1,243	39,472	30,872	30,034	838
(iii) License Fees	4,238	3,594	3,594	0	4,098	3,747	3,669	78
(iv) Other Revenue	315,429	136,660	136,600	60	286,574	268,567	268,567	0
Total	<u>392,246</u>	<u>198,767</u>	<u>193,756</u>	<u>5,011</u>	<u>371,301</u>	<u>325,329</u>	<u>315,953</u>	<u>9,376</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) The revenue collected in the year under review had decreased by Rs. 122,197,066 to Rs. 193,756,033 compared to the revenue collected in the previous year of Rs. 315,953,099.	Only billed income of Rs. 136,660 has been included, excluding unbilled income in the year 2024	Revenue billing should be done properly and efforts should be made to collect revenue.

(b)	The Sabha had not taken steps to recover the outstanding rent of Rs. 538,900 from the rental income of Rs. 1,242,924 as at the end of the year under review.	It is stated that after resolving the problem regarding the collection of shop rent at the Padukka Fishery Fish Market, steps will be taken to collect the outstanding amount.	Steps should be taken to recover the outstanding rent.
©	An estimated income of Rs. 1,527,000 was estimated for the advertisements board revenue for the year 2024, and the annual billing for the year 2024 was Rs. 549,585. Accordingly, the annual billing was reduced by Rs. 977,415, or 64 percent, compared to the annual estimated income.	Action has been taken to recover only the revenue that the council has the authority to recover from advertisements boards.	Action should be taken to bill advertisements board revenue correctly.
(d)	The court fines due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2024 were Rs. 84,606,603 and stamp duty was Rs. 346,615,602.	That the necessary schedules are being prepared to receive the money in the years 2023 and 2024.	The necessary schedules should be prepared and steps should be taken to recover court fines and stamp duties.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Water had accumulated around the area where the rotting waste was collected to remove the rotten vegetable parts removed from the market grounds and as the water flowed towards the waste tank of the public toilet, the surface of the tank deteriorated and became dangerous. Also, it had been difficult to use due to a water leak that had been present for some time. in the water supply system connected to the toilet located at the market.	That work will be done to repair it in the future.	Work should be done to repair the drainage system at the weekly market.
(b)	According to paragraph 4 of the by-law on advertisements, the council had not	Revenue should be collected according to the	Revenue should be collected

	earned any income from advertisements and only Rs. 549,985 had been earned from advertisements in the year 2024. The advertisements board register maintained by the council had not been maintained properly and only the advertisements of businessmen who came to obtain a permit to post an advertisement had been included in that register.	survey report and steps should be taken to remove the advertisement boards that default on payments.	according to the advertisements board survey, and steps should be taken to remove advertisement boards that default on payments.
©	According to the Sabha's advertisements board register, there were instances where the Sabha had not taken steps to remove permanent advertisement boards and temporary advertisement boards that were registered in 2023 and unpaid in 2024.	Action will be taken to remove and remove non-paying advertisement boards.	Action should be taken to remove non-paying advertisement boards.
(d)	According to paragraph 21 of the above by-laws, if a advertisement board in any way poses a threat to the beauty of the city, a written notice of such advertisement board should be given to the relevant owner and steps should be taken to rectify it within 07 days and although it was stated that the council should remove it otherwise, 10 discolored advertisement boards were observed during the physical inspection.	Action will be taken to remove discolored advertisement boards.	Action should be taken in accordance with the relevant by-laws.
(e)	It was observed during the physical audit that nearly 3,000 people visit Kumari Falls, which is located in an attractive and scenic environment, on weekends. Although there was the potential to develop this place and generate revenue by issuing tickets for tourists under the Pradeshiya Sabha, the Sabha had not paid attention to it.	This project could not be started due to the inability to find the necessary financial resources.	The project should be started after collecting the necessary financial resources.

3.2 Human Resources Management

Audit Observation	Comments of the Recommendation Sabha
(a) Although there were 05 Ayurvedic Medical Centers under the administration of the Council, there were 04 doctors on the approved staff for the Council, and one of the posts was vacant. Therefore, one doctor had to be assigned to the Hanwella Ayurvedic Medical Center and two doctors to the remaining 04 Ayurvedic Medical Centers thus it was observed during the audit that the 04 Ayurvedic medical centers were open only 03 days a week. Due to this, it was observed that there were practical problems in obtaining health service facilities under public utility services for the people of the area, and the council had not taken steps to amend the approved staff in proportion to the increase in the number of medical centers.	Requests have been sent to the Chief Secretary and the Local Government Commissioner along with the quarterly report for the revision of medical posts in relation to the number of hospitals. Steps should be taken to increase the number of approved medical posts.
(b) Due to the vacancy of 04 approved Ayurvedic drug compounder posts, 04 librarian posts, 05 posts of health administration and driver for a period of between 02 and 05 years, field workers and library assistants were deployed to perform the duties of those positions.	It has been stated that it has not been possible to fill these vacancies as it has been instructed not to recruit for positions that have not yet been appointed. Steps should be taken to fill vacancies in essential posts.