

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Udunuwara Pradeshiya Sabha for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 and Income and Expenditure Account, 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 sub-section 10 (1) of 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 Udunuwara Pradeshiya Sabha as at 31 December 2024, and of its financial performance and for the year then ended in accordance with Generally accepted Accounting Practices

1.2 Basis for Qualified opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements

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 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 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 Sabha	Recommendation
(a) Although there was no court fine arrears as at the end of the year under review, Rs.1,722,491 had been incorrectly recorded as court fine receivable in the balance sheet as at that date. Similarly, although the court fine billing for the year under review was Rs. 1,186,414, it had been recorded as Rs. 2,908,905, and overstated by Rs.1,722,491.	Action will be taken to correct it in the future.	Income should be accounted for correctly.
(b) As of the end of the year under review, stamp duty had been over-stated by Rs.138,965.	The difference will be examined and corrected.	- Do -

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
A difference of Rs. 26,841,846 was observed when comparing the balances of 18 asset subjects and 03 liability subjects shown in the financial statements with the balances in the relevant schedules as at the end of the year under review.	It is not possible to identify the difference in the employee loan balance, it is not possible to identify how the difference in the stamp balance was received, and other balances will be checked and corrected.	Account balances should be reconciled with the relevant schedules and presented accurately.

1.6.3 Suspense Accounts

Audit Observation	Comments of the Sabha	Recommendation
The reasons for the credit balance of the suspense account of Rs. 46,225, which has existed since 2017, had not been identified and rectified.	Action will be taken to settle in the future.	The suspense account balance should be settled.

1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules Regulations	Non-compliance	Comments of the Sabha	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
F.R. 571(3)	Action had not been taken to settle 179 lapsed deposits of Rs. 1,086,289 carried forward from 2018.	The deposits will be refunded or taken as income.	Lapsed deposits should be settled.
(b) Local Government Special Provisions Act No. 48 of 1971 and Public Finance Circular No. 434 dated 31 st December 2008 and Local Government Commissioner's Circular No. 1988/22 dated 17 th May 1988	Although all immovable properties within the Sabha area should be assessed at least once every 5 years for the purpose of levying rates, it was observed that the Sabha has not conducted an assessment since 2014.	A data file prepared separately for the rateable property, CD and hard copy have been submitted to the Valuation Department.	It should be assessed once every 5 years and rates should be levied accordingly.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent of the Sabha for the year ended 31 December 2024 amounted to Rs.6,396,300 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 18,591,301 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 of the Sabha 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

		2024				2023			
	Source of Revenue	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.
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(i)	Rates and Taxes	12,923,000	15,265,634	14,828,857	37,913,635	12,925,000	11,880,628	13,118,345	37,476,858
(ii)	Rent	5,146,573	6,622,999	12,077,302	7,166,142	5,417,073	6,868,774	12,626,544	12,620,445
(iii)	License Fees	2,909,100	3,150,280	2,481,820	1,707,810	2,909,100	3,564,412	3,564,412	1,039,350
(iv)	Other revenue	58,574,400	35,431,751	138,394,880	17,529,183	54,961,100	43,051,101	83,098,985	120,492,312
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	Total	79,553,073	60,470,664	167,782,859	64,316,770	76,212,273	65,364,915	112,408,286	171,628,965
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2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Rates and tax		
(i)	Rates		
	The arrears of rates from 8,572 private assessment units as at the end of the year under review was Rs. 36,521,918. The arrears had not been collected in accordance with Section 158 of the Pradeshiya Sabha Act No. 15 of 1987.	Actions are being taken to recover the outstanding amount.	Arrears of rates revenue should be collected promptly.
	Action had not been taken to recover Rs. 1,185,059 from 176 government properties as at the end of the year under review,	Instructions have been given to pay the arrears both in writing and verbally.	- Do -
(ii)	Acreage Tax		
	The acreage tax arrears of Rs. 202,706 from the year 2018 to end of the year under review had not been collected.	Action will be taken to write it off, after a formal survey	Arrears of revenue should be collected promptly.

(b) Court fines and Stamp duty

Court fines of Rs. 1,722,491 and stamp duty of Rs. 8,455,862 were due from the Chief Secretary of the Provincial Council and other authorities as of 31 December 2024.

There was an arrears of court fines and action will be taken to collect stamp duties.

Court fines and stamp duty should be collected

(c) Other Income

(i) Three-wheeler fees

The balance in the Three-Wheeler Control Account as at the end of the year under review was Rs. 2,458,500, Therein; Rs. 841,200 was a balance to be recovered from 17 Three Wheeler Associations with arrears of more than Rs. 10,000.

In the future, surveys will be conducted and action will be taken to collect the arrears or write off them from billing.

Arrears of revenue should be collected promptly.

(ii) Garbage tax

Out of the arrears of Rs. 920,060 as at the end of the year under review, the arrears to be collected from 09 units exceeding Rs. 10,000 was Rs. 771,450.

That action will be taken to recover

-Do -

(iii) Advertisement board fees

As of the end of the year under review, there was an arrears balance of Rs. 1,707,810 in Advertisement board. Out of this, 19 institutions with an arrears of more than Rs. 10,000 , had total arrears balance of Rs. 771,300.

Action will be taken to recover the arrears or remove the advertising boards.

Arrears of revenue should be collected promptly.

3. Operational Review

3.1 Identified losses

Audit Observation

The amount related to the assessment tax fraud of Rs. 1,028,451, which has been pending since 2018, had not been recovered.

Comments of the Sabha

The reminder letters will be issued and action will be taken to recover the money.

Recommendation

The losses should be recovered from the relevant parties.

3.2 Management inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	As at 31 st December of the year under review, 05 development projects debtor balances amounting to Rs. 3,710,039 had not been settled for a period of 01 to 05 years.	Letters have been issued to relevant institutions to recover arrears of development projects debtors.	Receivable balances should be collected.
(b)	In accordance with Section 83.1 of Part IV of the Planning and Building Regulations as amended under Section 21 of the Urban Development Authority Act, No. 41 of 1978, published in the Extraordinary Gazette No. 2235/54 dated 08 July 2021, read with Section 08 of that Act, Certificates of Conformity had not been issued for 799 building applications approved from the year 2020 to the year 2024.	One applicant will be given a 5-year extension and other applicants will be informed to claim for it.	Action should be taken to issue certificates of conformity for buildings used for residence.
(c)	As per the Circular No. 2020/06 of the Commissioner of Local Government dated 28 th September 2020, the surplus funds of the Sabha should be invested in projects that can generate revenue for the Sabha, such as property development or projects that provide public amenities to the majority of the people, but without doing so, Rs.167,567,153 had been retained in fixed deposits, Rs. 194,231,825 in the current account and Rs.5,281,212 in the SWEEP account as at the end of the year under review.	In the future, funds of the Sabha will be used to carry out appropriate projects, subject to the approval of the Sabha.	Surplus money should be used for regional development.
(d)	Regarding the accident that occurred to the JCB machine on 7 January 2023, a F.R. 104(4) investigation had not been conducted, those responsible had not been identified, and the losses had not been recovered.	That the preliminary report has been forwarded to the Commissioner of Local Government and that the final F.R.104(4) investigation has not been conducted.	Losses should be recovered.
(e)	The arrears balance to the pension contribution fund of Rs. 581,643 as at the end of the year under review had not been settled.	It will be settled in the future.	The relevant contribution amount should be settled.

3.3 Assets Management

Audit Observation

No action had been taken to acquire the ownership of 67 cemeteries and 02 vehicles used by the Sabha.

Comments of the Sabha

Action will be taken to acquire in the future

Recommendation

The ownership of the properties owned by the Sabha should be taken over.

3.4 Human Resource Management

Audit Observation

- (a) When comparing the approved and actual staffing, there were 30 vacancies in 14 posts and 13 excess in 02 posts.

Comments of the Sabha

That recruitment for vacancies is based on government policy and the decisions on non-institutional positions are made by the relevant institutions.

Recommendation

Vacancies should be filled and public services should be performed efficiently.

- (b) As of the end of the year under review, a total balance of Rs. 426,955 had not been recovered from 13 officers who had transferred, retired and whose information could not be found.

Due to inability to find information, no response despite sending letters, delay in identification, and action will be taken to recover employee security deposit.

Employee loans should be settled.