

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hanguranketha 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 Hanguranketha Pradeshiya Sabha as at 31 December 2024, and of its financial performance 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) From March 2019 to December 31 of the year under review the total rent of Rs. 2,082,800 from the 12 stalls at Hanguranketha Public Market had not been billed and accounted for.	Action is being taken to reclaim the possession and billing has been suspended since 2019.	The rent related to the stalls should be accounted for and collected from the responsible parties.
(b) The amount of Rs. 612,337 due for a construction project had been paid to the contractor in August 2021 and was still accounted for under creditors as of the end of the year under review.	Action will be taken to formally remove it from the account in the future.	Accounts should be prepared correctly.
(c) During the year under review, the purchase of office and furniture was understated by Rs. 518,556.	Corrections will be made when preparing the final accounts for the year 2025.	Purchases of office and furniture should be accurately accounted for.
(d) During the year under review, purchases of computer equipment were undercapitalized by Rs. 189,396 on 04 occasions.	- Do -	Purchases should be accounted for correctly.

1.6.2. Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs. 338,738 in the balance of employee loans as per the financial statements as at the end of the year under review compared to the balances shown in the Schedule.	Action will be taken to correct it in the future.	Account balances should be reconciled with the relevant schedule balances.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
The total assets and liabilities of Rs. 141,160 shown in the financial statements could not be satisfactorily examined during the audit due to the failure to submit reports and schedules of contracts/work performed related to 03 subjects.	It will be corrected in the future, once the relevant information is found in a formal manner.	Necessary documents should be maintained to verify assets and liabilities.

1.7 Non- Compliances

Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules Regulations	Non Compliance	Comments of the Council	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
i 52 Section	Necessary action had not been taken regarding 54 unauthorized constructions identified in the year under review and the previous year.	Action will be taken to file a lawsuit in the future.	Legal action should be taken against unauthorized construction.
ii Section 93 (b)	A Gully service had not been maintained to properly clean all toilets and cess pits within the Sabha area within relevant time period.	There is no possibility of purchasing due to lack of provisions..	Public service should be maintained properly.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 571 (3)			
	18 lapsed deposits totalling Rs. 985,395 relating to the period from 1998 to 2021 had not been settled.	The necessary steps are being taken to collect these deposits as government revenue.	Financial regulation should be followed in relating to lapse deposits.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December in 2024 amounted to Rs. 2,073,995 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 7,029,591 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	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	10,864,603	13,428,450	13,247,583	1,335,100	4,847,160	4,621,751	3,950,978	1,154,233
(ii)	Rent	5,163,900	6,846,524	6,922,748	2,473,694	7,433,000	3,124,423	4,356,413	2,549,918
(iii)	License Fees	2,092,024	1,788,470	1,788,470	-	2,480,000	4,545,010	3,124,423	-
(iv)	Water & Other revenue	33,678,514	15,589,535	10,624,174	13,332,695	5,573,500	9,333,583	3,011,499	8,367,334
	Total	51,799,041	37,652,979	32,582,975	17,141,489	20,333,660	21,624,767	14,443,313	12,071,485

2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Rates & Tax		
	Out of the Rates tax arrears of Rs. 632,573 at the beginning of the year under review, Rs. 308,207 had not been collected during the year, and Rs. 634,682 had not been collected from the billings of the year under review. There was also Rs. 237,196 due from 70 units for more than 05 years, and the arrears had not been collected in accordance with Section 158 of the Pradeshiya Sabha Act No. 15 of 1987.	A part of income has been collected by sending final notices, and further final notices are being sent.	The arrears of revenue should be collected.

(b) Stall Rent

As of the end of the year under review, an arrears stalls rent balance of Rs. 2,315,532 had not been collected from 13 stalls.

Lawsuits have been filed to take over the possession of 12 stalls.

Action should be taken to recover the outstanding amount.

(c) Court fines and Stamp duty

The stamp duty receivable from the Chief Secretary of the Provincial Council and other officers as at 31st December of the year under review was Rs. 10,652,100.

Part of the money has been collected and efforts are being made to collect the remaining amount.

The revenue receivable should be collected.

3. Operational Review

3.1. Irregular Transaction

Audit Observation	Comments of the Sabha	Recommendation
Although the lease agreements entered into with the lessees of 12 stalls in the Hanguranketha Public Market belonging to the Sabha had expired on 31 st December 2010, no new agreements had been entered into until the last day of the year under review and no trade licenses or garbage taxes had been collected from these 12 stalls after 2011. Also, due to non-collection of stall rent according to the valuation reports obtained in the year 2011, the Sabha had lost an income of Rs. 3,962,400 from 2011 to the year under review. No legal action had been taken in this regard.	No comments	Legal action should be taken urgently.

3.2 Management inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) A refund of Rs. 100,000 from the amount given to a bus company for driver training in 2018 had not been recollectd.	That the information will be investigated and clarified.	Debtor balances should be settled promptly.

(b)	The balance of development projects creditors as at the end of the year under review was Rs. 12,058,495. Therein, the total for the period between 01 and 05 years of Rs. 796,647 and the total balances exceeding 05 years of Rs. 70,000, had not been settled.	The necessary further steps will be taken to settle.	The creditor balance should be settled.
(c)	Although surplus funds can be used for regional development as per the Circular No. 2020/06 of the Commissioner of Local Government, Central Province dated 20 September 2020, the surplus funds of Rs. 41,973,896 held in the bank current account as at the end of the year under review had been invested in a savings account.	This money has been invested in a sweep account.	Surplus money should be used for regional development.

3.3 Idle or underutilized Property, Plant and Equipment

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Six old public market stalls located in Rikillagaskada had been unused and closed since 2023, and these stalls and land located in the mid of the city had not been utilized effectively.	Since this land is owned by the Land Reform Commission, there is a problem in carrying out construction work.	Ownership should be settled and the stalls should be utilized effectively.
(b)	117 units of plumbing fixtures worth Rs. 328,770 were stored unused and had been idle for 17 years from 2008 to 2025.	These water pipes have been safely stored with the expectation of being used if new water projects are initiated in the future.	Equipment should be purchased, having identified the needs.
(c)	A tractor belonging to the Sabha had not been used since 2022.	The vehicle has been brought back to the Sabha as importing spare parts is costly and time-consuming.	The feasibility of repairing the tractor should be identified and appropriate decisions should be made.

3.4 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
The Ayurveda building located near the old public market stalls in Rikillagaskada was currently unused and abandoned, with the surrounding area overgrown with weeds. No steps had been taken to repair and put this building to productive use.	No comments	The relevant buildings should be renovated and utilized for productive purposes.

3.5 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
When comparing the approved staff with the actual staff as at the end of the year under review, there were 37 vacancies in 03 posts and 06 excess in one post.	Since no recruitment is being carried out currently, there are still vacancies.	Essential vacancies should be filled.