

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Nuwara-eliya 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 Adverse Opinion, because of the significance of the matters described in the basis for adverse opinion section in my report, the financial statements do not give a true and fair view of the financial position of the Nuwaraeliya Pradeshiya Sabha as at 31 December 2024 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Adverse opinion

I expressed adverse 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 adverse 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Designed and performed the appropriate audit procedures, identified and assessed the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- Obtained 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 the internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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 the Pradeshiya Sabha 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the 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 except the audit matters of 1.6.1 (a) described in paragraph 1.6 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 on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The value of the Puraneguma building, which was constructed at a cost of Rs. 90,470,000 under the Local Government enhancement Sector Project and handed over to the Sabha on 20 May 2024, had not been accounted for.	It will be corrected when preparing the final accounts for 2025.	All assets owned by the sabha should be accounted for.
(b)	Two motorcycles worth Rs. 149,000, which had been removed from the auction in 2022, were further listed in the Motor Vehicles and Carts account.	It will be removed from the records and accounts when preparing the final accounts for 2025.	Auctioned items should be removed from the accounts.
(c)	Office equipment totaling Rs. 170,750 purchased during the year under review had not been accounted for.	Deficiencies will be corrected and accounted for in the current year.	Accounts should be prepared correctly.
(d)	Although the surplus in the Income and Expenditure Account of Rs. 31,360,205 had been omitted from the accounts as at the end of the year under review, the balance sheet had been agreed.	Action will be done to correct it in 2025.	Accounts should be prepared correctly.
(e)	The stamp duty amounting to Rs. 48,513,172 identified in the year under review in relation to previous years had been correctly accounted for, but had been erroneously debited back to the Consolidated Fund.	Action will be taken to ensure that such shortcomings do not occur again.	Accounts should be prepared correctly.

(f)	Although no stamp duty income was identified in the schedules for the year under review, stamp duty income of Rs. 42,795,984 was erroneously accounted for as income for the year.	It will be correctly recognized and accounts prepared next year.	Accounts should be prepared correctly.
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1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
When comparing the balances related to 06 accounting subjects shown in the financial statements with the balances in the relevant prime entry books/ source documents/ monthly summaries/ P.S reports, difference of Rs. 13,096,786 were observed.	Corrections will be made when preparing the accounts for the year 2025.	Account balances should be reconciled with the relevant schedules.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
The total amount shown in the financial statements for development projects debtors amounting to Rs. 1,372,189 could not be satisfactorily verified during the audit due to non-submission of relevant project files.	The files could not be found and further action will be taken after re-checking.	Documents and files should be maintained to verify account balances.

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 Sabha	Recommendation
(a) Parliament Acts			
Section 83.1 of Part VI of the Planning and Building Regulations as amended under Section 21 of the Urban Development Authority Act, No. 41 of 1978, published in the	Certificates of Conformity had not been issued for 79 building plan applications approved by the Sabha in the area of authority between 2018 - 2022.	Letters have been sent to obtain certificate of conformity and collect fines.	Certificates of conformity should be issued for buildings used for residential purposes.

Extraordinary Gazette No.
2235/54 dated 08th July
2021, read with Section
08 of that Act.

**(b) Financial Regulations
of the Democratic
Socialist Republic of
Sri Lanka**

F.R. 571 (3)	As of the end of the year under review, 23 lapsed deposits totaling Rs. 6,400,284 relating to the period 2020 - 2022 had not been settled.	Necessary action will be taken regarding 23 Deposits and they will be corrected.	Lapsed deposits should be settled.
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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 amounted to Rs.38,134,397 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 24,001,479 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	10,000,000	7,458,971	6,714,814	3,381,698	7,000,000	6,141,853	5,445,139	2,637,541
(ii)	Rent	13,734,650	12,594,845	13,146,860	692,024	11,191,931	7,195,579	6,971,707	1,244,039
(iii)	License Fees	11,925,000	8,836,569	8,836,569	-	6,125,000	9,446,332	9,446,332	-
(iv)	Other revenue	37,145,000	68,856,881	69,730,065	33,403,225	24,864,750	34,468,867	7,370,485	33,840,110
Total		72,804,650	97,747,266	98,428,308	37,476,947	49,181,681	57,252,631	29,233,663	37,721,690

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Recommendation Sabha
(a) Rates	
<p>The arrears of assessment tax balance as at the end of the year under review was Rs. 3,338,486. Out of which, Rs. 232,465 was due from 04 units with a arrears per unit between Rs. 50,000 to Rs. 100,000, Rs. 388,954 from 11 units with a arrears per unit between Rs. 25,000 to Rs. 50,000 and Rs. 2,718,371 from 1272 units with a arrears per unit less than Rs. 25,000. Action had not been taken and collected in accordance with Section 158 of the Pradeshiya Sabha Act No. 15 of 1987.</p>	<p>The arrears of revenue will be collected in the future.</p> <p>Action should be taken in accordance with the Act and arrears of revenue should be collected promptly.</p>
(b) Stall Rent	
<p>Out of the total stall rent arrears of Rs. 600,004 as at the end of the year under review, there was a balance of Rs. 148,481 which was outstanding for more than 05 years.</p>	<p>Action will be taken to recover the remaining outstanding balance through legal proceedings.</p> <p>Arrears of revenue should be collected promptly.</p>
(c) Other Income	
<p>The total water charges outstanding as at the end of the year under review was Rs. 616,169. Of this, Rs. 65,325 was due for a period of 2 - 3 years and Rs. 138,537 was due for more than 3 years.</p>	<p>A program will be implemented and charged in the current year.</p> <p>Arrears of revenue should be collected promptly.</p>
(d) Court fines and Stamp duty	
<p>The court fines due from the Chief Secretary of the Provincial Council and other authorities as at 31st December of the year under review were Rs. 159,995 and stamp duty Rs. 32,190,762.</p>	<p>The schedules which are required for recovery have been forwarded to the Chief Secretariat.</p> <p>Arrears of revenue should be collected promptly.</p>

3. Operational Review

3.1 Identified losses

Audit Observation	Comments of the Sabha	Recommendation
Although investigations were conducted under Financial Regulation 104 (4) regarding the loss of Rs. 1,979,736 identified in relation to the leasing of properties outside the procurement process and unpaid advances between the years 2018 and 2020, those responsible were identified and relevant recommendations were given between June 2022 and March 2023, by the end of the year under review, no steps had been taken to implement the relevant recommendations and recover the losses or take legal action.	The Local Government Department has been informed and requested for necessary instructions.	The recommendations of F.R.104(4) should be implemented and losses should be recovered.

3.2 Apparent Misappropriations

Audit Observation	Comments of the Sabha	Recommendation
Although a cab owned by the Sabha had driven 6895 kilometers for 862 liters of fuel at a cost of Rs. 267,220 in 42 days from August to September 2024, the officer using the vehicle had not signed. Also, the vehicle had driven 2096 kilometers for 262 liters of fuel at a cost of Rs. 81,220 in 15 days, thereby fuel had been misused.	It is acknowledged that the relevant running charts for the 42-day period were not signed and that the vehicle running charts were submitted for audit.	Relevant inspections should be conducted and appropriate action should be taken regarding the lack of signatures indicating the use of vehicles and the misuse of vehicles and fuel without due diligence.

3.3 Irregular transaction

Audit Observation	Comments of the Sabha	Recommendation
A government quarters belonging to the Sabha had been rented out to an outside party for a monthly rent of Rs. 250 each without an agreement, while 02 quarters had been given to a secretary without paying rent and an officer who had worked in the Sabha and retired in 2022 had been allowed for informal residency.	Tenants will be informed, and steps will be taken to collect the arrears and take legal action.	The arrears amount should be collected and action should be taken regarding the quarters in accordance with the provisions of the Establishments Code.

3.4 Management inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The quarters rent of Rs. 92,769 due from 03 officers who use and had used the Quarters of the Sabha had not been recovered for a period of between 06 months and 25 years.	Further action will be taken to collect the arrears amount and file a lawsuit.	The arrears should be collected and action taken in accordance with the provisions of the Establishments Code regarding the quarters.
(b) Although the Central Environmental Authority had physically inspected the Nanu Oya slaughterhouse operating in the area of authority in May 2023 and submitted recommendations for granting an environmental permit, by the end of the year under review, the slaughterhouse had continued to operate without implementing the relevant recommendations.	Priority/ leading attention will be paid to this matter and necessary further action will be taken.	Legal action should be taken for failure to implement the recommendations.

3.5 Assets Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Although Rs. 165,460 had been paid to the Survey Department in 2023 for the measurement of the head office and stalls located near the Nanu Oya shortcut, the survey work had not been completed and the reports had not been obtained by the end of the year under review.	Actions will be taken to obtain the relevant survey certificates promptly.	Actions should be taken to complete the survey work and obtain reports.
(b)	In 2021, 09 stalls in Concordiawatta which had been constructed by the Sabha at a cost of Rs. 1,373,687, a truck worth Rs. 6,009,602 and a quarters owned by the Sabha, remained unused or underutilized for a period of 01 to 06 years.	The truck owned by the Sabha will be modernized and put into service in the future.	Shops and vehicles should be utilized effectively.

3.6 Human Resources Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	When comparing the approved staff with the actual staff as at the end of the year under review, there were 30 vacancies in 18 posts. This situation had become a serious obstacle to the efficient maintenance of public utility services.	Action will be taken to submit the necessary information for recruitment to the authorities.	Action should be taken to fill the vacancies.
(b)	A loan balance of Rs. 237,167 due from an officer who had worked in the Sabha and was suspended had not been recovered for a period of 4 years.	The employee loan arrears will be collected in the future.	Employee loan arrears should be collected.