

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lahugala 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 Lahugala 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 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 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
Stamp duty receivable from 2019 to 2023 was understated by Rs. 88,005 in the financial statements.	I inform you that it was received by our institution in May 2025. Furthermore, we inform you that the action will be taken to rectify the shortcomings.	Income should be identified and accounted for correctly.

1.6.2 Lack of Written Evidences for Audit

Audit Observation	Comments of the Council	Recommendation
As evidence relating to 04 accounting items totalling Rs.212,830,635 as stated in the financial statements was not submitted to the audit, it was not possible to satisfactorily examine them.	According to this observation, it has been informed by letter that the relevant assets are to be valued and steps will be taken to update them after the valuation.	Written evidence should be submitted to support the account balances shown in the financial statements.

1.7 Non-compliance

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations and Management Decisions etc.	Comments of the Council	Recommendation
(a) Pradeshiya Sabha Act, No. 15 of 1987		
(i) Section 128	Steps had not been taken to transfer the ownership of the lands used by the Pradeshiya Sabha to the name of the Pradeshiya Sabha.	That the steps will be taken in the future to transfer ownership of lands belonging to the Pradeshiya Sabha to the Pradeshiya Sabha.
		The provisions of the Pradeshiya Sabha Act should be followed.

(ii)Section 134	Action had not been taken to identify new sources of income by timely identifying developed areas within the Pradeshiya Sabha area.	Action will be taken according to the instructions of the Local Government Commissioner in the future.	The provisions of the Pramadeshiya Sabha Act should be followed.
(b) Pradeshiya Sabha (Finance and Administration) Rules, 1988			
(i) Rule 5(xii)	Steps had not been taken to obtain adequate securities from the officers responsible for financial and stores.	he officers have been informed in writing to obtain the securities in the year 2025, and action will be taken to rectify this in the future.	Financial and administrative rules should be followed.
(ii) Rule 59	Although the Revenue Inspector of the Sabha was required to prepare a list of commercial businesses and industries existing within the area at the beginning of each year and submit it to the Secretary of the Sabha before 31 March action had not been taken accordingly.	Since this institution has not had a revenue inspector for several years, it could not be carried out such a survey.	Financial and administrative rules should be followed.
(iii) Rule 218	Although all lands and buildings owned by the Sabha should be inspected at least once a year, no action had been taken accordingly.	Action will be taken to correct next year.	Financial and administrative 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.357,352 against with the excess of recurrent expenditure over income amounted to Rs.1,325,408 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.

Source of Revenue	2024				2023			
	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	-	-	-	-	-	-	-	-
ii. Rent	2,827,812	2,031,814	2,022,814	9,000	2,941,000	1,601,612	1,666,912	53,370
iii. License Fee	542,600	270,250	270,250	-	520,000	214,900	214,900	26,563
iv. Other Revenue	779,588	1,320,342	1,320,342	-	521,000	380,349	380,349	-
Total	4,150,000	3,622,406	3,613,406	9,000	3,982,000	2,196,861	2,262,161	79,933

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)	A survey of trade, business, and industry within the Pradeshiya Sabha area had not been conducted, and estimates for the collectible fees had not been prepared, nor were steps taken to levy the fees. However, trade licenses were levied for 64 licenses in 2023 and 102 licenses in 2024, amounting to Rs.191,900 and Rs.166,250, respectively. Although the number of institutions from which fees were levied annually had gradually increased, the collected license fees had correspondingly decreased.	Trade licenses have been issued for 115 businesses this year, and 51 receipts related to the year 2023 have been recorded in the license fee register. Accordingly, I will take steps to include those 51 receipts, which were not included in the license fee register for the year 2023, into the relevant license fee register.	Income Should be accounted for correctly.
(b)	Court fines totaling Rs.232,834 and stamp fees totaling Rs.209,805 were receivable from the Chief Secretary of the Provincial Council and other relevant authorities as at 31 December 2024.	That the steps will be taken to recover court fines and stamp duty revenue.	Arrears of revenue should be recovered promptly.

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.

Audit Observation	Comments of the Council	Recommendation
Matters requiring the imposition of by-laws had not been identified and steps had not been taken to impose by-laws under Section 126 of the Pradeshiya Sabha Act, and as only 05 by-laws had been imposed as at 31 December 2024.	Steps will be taken to enact bylaws after the appointment of members in the future.	Bylaws should be enacted to legalize the process.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Action had not been taken to settle the outstanding advance balance of Rs.83,500, which was more than 10 years old, as of 31 December of the year under review.	Letters have been sent to the officers who received advance money to settle in this regard and I will take steps to recover it within this year.	Advances should be settled without delay.
(b)	Stamp duty revenue amount of Rs.104,728, collected by the Council from the year 1987 to 2023, had not been remitted to the Department of Inland Revenue but was retained in the General Deposits Account.	A letter was sent to the Inland Revenue Department regarding this matter, but no response has been received to date.	Arrangements should be made to send money to the Inland Revenue Department.
(c)	The rest house in the Panama area had become a very dirty and unsafe place due to the lack of staff to protect the property, clean it, and manage the rest house activities.	There are vacancies among junior staff in this regard and necessary steps will be taken after the establishment of the Sabha in the future.	Immediate steps should be taken to maintain the cleanliness of the rest house and protect the property.

3.3 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Thirteen vehicles owned by the Sabha remained idle because the Sabha had not taken the necessary steps either to repair and reuse them or to sell the irreparable vehicles through an auction.	Since the Sabha is a low-income earning council and lacks the necessary provisions to repair vehicles, delays occur in carrying out these repairs. Action has been taken this year to repair 02 vehicles under the Provincial Special Development Proposals, and action will be taken regarding the other vehicles in the future.	Action should be taken to repair vehicles and re-use them or sell them at auction if they cannot be repaired.
(b)	The waste shredding machine, valued at Rs.485,000, which was purchased in the year 2021, has not been used for a period of 04 years and is currently deteriorating.	Action will be taken to install the machine once land is obtained for waste disposal.	Steps should be taken to put the machine into operation as soon as possible.
(c)	The necessary steps had not been taken to transfer the ownership of 15 vehicles used by the Sabha to the name of the Sabha.	Action will be taken to transfer the ownership of the relevant vehicles.	The ownership of the vehicles should be transferred to the Sabha.

3.4 Human Resource Management

	Audit Observation	Comments of the Council	Recommendation
	There were 16 vacancies in 08 posts in the Sabha and there was an excess of 02 work/field worker posts at the end of the year under review.	Accept. The small number of employees in the approved cadre is not at all sufficient considering the size of the area and these employees have been employed to perform those duties to some extent. That the steps have been taken to get these 02 excess posts approved by the staff.	Steps should be taken to fill the vacancies.

4. Accountability and Good Governance

4.1 Internal Audit

	Audit Observation	Comments of the Council	Recommendation
	Recommendations for improving organizational operational processes and	Action will be taken in the future.	Recommendations for improving

enhancing performance had not been prepared by internal audit in accordance with Section 40 of the National Audit Act No. 19 of 2018 and Financial Regulations 133(1).

organizational operational processes and enhancing performance should be prepared and implemented in accordance with the Act.

4.2 Audit Committee

Audit Observation

In accordance with the Internal Audit Guidelines Circular No. DMA/01–2019 dated 12 January 2019 of the Department of Management Audit, the Sabha had not established Audit and Management Committees and held committee meetings during the year under review.

Comments of the Council

Arrangements are being made to hold these committee meetings from 2025.

Recommendation

Steps should be taken to establish an Audit and Management Committee and hold meetings.

4.3 Environmental Issues

Audit Observation

Although the Wildlife Department had informed the Pradeshiya Sabha not to dispose of the garbage collected within the area at 03 locations namely Lahugala, Palama and Hulangnuge, the necessary steps had not been taken to find a new location for that purpose.

Comments of the Council

Requests were made at the regional committee meetings regarding land requests for waste disposal and copies of those letters are attached herewith. If land is available in the future, arrangements will be made to install the above composting machine.

Recommendation

Garbage should be disposed of in an environmentally friendly manner.

4.4 Sustainable Development Goals

Audit Observation

The Sabha had not taken sufficient measures to collect the necessary data and provide the necessary financial provisions for achieving the Sustainable Development Goals and Objectives in accordance with the Sustainable Development Act No. 19 of 2017.

Comments of the Council

Allocations have been made for recurrent expenditure and capital expenditure to achieve sustainable development goals from the 2025 budget.

Recommendation

The Sabha should take action to collect the necessary data and provide the necessary financial provisions to achieve the sustainable development goals and objectives as per the circular.