

Pannala Pradeshiya Sabha – 2024

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Pannala Pradeshiya Sabha for the year ended 31 December 2024 Statement of assets and liabilities as at 31 December 2024, comprehensive Income Statement, Statement of Net Assets/equity Changes, Cash Flow Statement 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, the sub section 172(1) of Pradeshiya Sabha Act No. 15 of 1987. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, owing to the importance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Pannala Pradeshiya Sabha as at 31 December 2024, and its financial performance and cash flows for the year then ended in accordance with the Generally accepted accounting Practices.

1.2 Basis for Adverse Opinion

I expressed Adverse opinion regarding 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 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 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 include 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 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 Council	Recommendation
(a)	The deposit balance of Rs. 67,865,702 as at the end of the year under review was stated in the financial statements as Rs. 53,964,109, a understated of Rs. 13,901,593.	That will be corrected by the 2025 financial statements.	Values must be identified and accounted for correctly.
(b)	Although the employee loan balance as of December 31 of the year under review was Rs. 16,574,228, it was accounted as Rs. 13,315,865, which is Rs. 3,258,363 less.	That will be corrected by the 2025 financial statements.	Accurate accounting must be done.
(c)	Although the value of the motor vehicle and carts as at 31 st December of the year under review was Rs. 94,630,000, it was recorded as Rs. 101,082,500, an excess of Rs. 6,452,500.	That will be corrected by the 2025 financial statements.	Accurate accounting must be done.
(d)	The deposit balance of Rs. 4,841,049 as at the end of the year under review in the 04 sub-offices belonging to the sabha had not been included in the financial statements.	That will be corrected by the 2025 financial statements.	Accurate accounting must be done.
(e)	The value of furniture and equipment purchased during the year under review, amounting to Rs. 1,172,794, had not been included in the financial statements, and the stock of Ayurvedic medicines as of December 31 of the year under review had been understated by Rs. 322,764.	That step will be taken to correct this in the final accounts of 2025.	Accurate accounting must be done.
(f)	As at the last day of the year under review, interest on fixed deposits of Rs. 1,286,255 had not been recognized and accounted for as income.	That will be corrected by the 2025 financial statements.	Income must be accurately identified and accounted for.

1.6.2 Unreconciled Control Accounts or Records

	Audit Observation	Comments of the Recommendation Council
(a)	According to the information provided to the audit, the balance of 02 asset items as per the schedules was Rs. 223,214,271 and the balance as per the financial statement was Rs. 390,563,490, resulting in a difference of Rs. 167,349,219 between those balances.	That will be corrected in the financial statements for the year 2025. The documents should be corrected and accounting should be done accordingly.
(b)	According to the information provided to the audit, the balance of 04 asset items and 02 income items as per the consolidated PR.S. 07 statement was Rs.375,799,701 and the balance as per the financial statements was Rs.740,027,284, resulting in a difference of Rs.364,227,583 between those balances.	That will be corrected by the 2025 financial statements. Records should be kept up to date and accounts should be prepared accordingly.
(c)	According to the information provided to the audit, the balance according to the consolidated expenditure summary of 08 expenditure subjects was Rs. 253,503,437 and the balance according to the financial statements was Rs. 332,952,802, resulting in a difference of Rs.79,449,365 between those balances.	This change has occurred because payments related to the year 2024 were made but were allocated under the creditors of the year 2025. The correct values must be identified.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Recommendation Council
Due to the lack of documents and supporting documents for 03 asset items valued at Rs. 14,894,050, it was not possible to satisfactorily verify them during the audit.	That necessary step will be taken to correct it in the future. Schedules must be kept up to date on all assets.

1.7 Non- Compliances

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

The following are examples of non-compliance with laws, rules, regulations and management decisions.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Pradeshiya Sabha Act No. 15 of 1987			
(i)	Section 134	Steps had not been taken to identify and publish the developed rural areas in order to obtain the maximum assessment tax amount for the local government institution.	That developed rural areas will be identified and steps will be taken to levy assessment taxes in the future.	Developed rural areas should be identified and efforts should be made to increase the sabha's income.
(ii)	Section 143	Although it had been stated that a provisional assessment should be made and assessments should be levied for new constructions carried out within the Sabha assessment area, such action had not been taken.	That the necessary steps are being taken to conduct a provisional assessment and levy assessments for new constructions carried out within the sabha assessment area.	Action should be taken to increase revenue by acting in accordance with the provisions of the Act.
(b)	Section 38(2) of Chapter VII of the National Audit Act, No. 19 of 2018	A copy of the written review that the Chief Accounting Officer should have carried out to ensure that an effective internal control system for financial control is maintained and that the effectiveness of that system has been reviewed and the necessary changes made to ensure that the system operates effectively had not been submitted to the Auditor General.	That the necessary measures have been taken within the institution for an effective internal control system for financial control and that step will be taken to present them to the Auditor General in the future.	Internal control should be reviewed timely and the work of the Sabha should be streamlined.

- (c) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- (i) Financial Regulations 371 Although the advance should have been paid immediately after the completion of the relevant work, there was an unpaid advance balance of Rs. 1,716,599 dating back to 1988. Of this amount, Rs. 1,467,376 has been settled so far and steps are being taken to settle the remaining amount of Rs. 249,223. Advance payments should be made immediately upon completion of the relevant work.
- (ii) Financial Regulations 571 (2) Action had not been taken to settle 1,194 overdue deposits worth Rs. 42,963,506. A deposit amount of Rs. 4,509,480 has been taken as revenue from the expired deposits so far and steps will be taken to release the remaining deposits in the future. Steps should be taken to release overdue deposits and credit unclaimed deposits to state revenue.

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 2024 amounted to Rs106,664,766 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 77,462,461 in the preceding year.

2.2 Revenue Administration

Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

The information on estimated income, billed income, collected income and arrears of income submitted by the sabha Secretary for the year under review and the previous year is shown below.

Source of income	2024 Year				2023 Year			
	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December (From Revenue billed)
	(Rs.000)	(Rs.000)	(Rs.000)	(Rs.000)	(Rs.000)	(Rs.000)	(Rs.000)	(Rs.000)
Rates and Taxes	16,305	14,546	13,193	3,957	15,263	11,025	8,890	2,604
Rent	36,044	36,313	34,062	7,369	33,841	30,527	27,927	5,118
License fees	1,732	1,100	1,100	-	1,551	1,522	1,522	-
Other Revenue	256,891	310,948	310,948	-	8,857	1,603	1,603	-
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Total	310,972	362,907	359,303	11,326	59,512	44,667	39,942	7,722
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2.3.2 Performance in Revenue Collection

	Audit Observation	Comments of the council	Recommendation
(a)	It was estimated that a revenue of Rs. 310 million would be collected in the year under review and Rs. 359 million had been collected including the arrears of revenue of Rs. 7.7 million relating to the previous year. Accordingly, the revenue estimates had not been realistically prepared.	That efforts will be made to prepare realistic revenue estimates for the year 2025.	Accurate revenue estimates should be prepared and funds should be used effectively.
(b)	Rates Taxes As at 31 st December of the year under review, out of the outstanding assessment tax balance of Rs. 3,428,153, Rs. 3,097,938 relating to the period between 1 and 5 years and Rs. 330,215 relating to more than 05 years remained uncollected.	Arrears of the assessment amount of Rs. 4,713,122 as of December 31, 2024, Rs. 3,668,604 has been collected as of March 31, 2025, which is about 77.84 percent.	Steps should be taken to recover arrears of revenue promptly.
(c)	Rent As at 31 st December of the year under review, an arrears of shop rent balance of Rs. 7,368,695 had not been recovered.	That steps will be taken to recover the outstanding amount.	Steps should be taken to recover arrears of revenue promptly.

3. Operational Review

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Performing of Functions Enacted by the Act

Audit Observation	Comments of the Council	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, by-laws could have been enacted to carry out 30 main matters, but the sabhal had not enacted any by-laws as of December 31 of the year under review.	That steps will be taken in the future to enact by-laws.	Action should be taken to regulate the affairs of the sabha in accordance with the provisions of the Pradeshiya Sabha Act.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Out of the 05 accounts receivable balances of Rs. 86,501,678 as on 31st December of the year under review, Rs. 84,219,006 related to the period between 1 and 5 years and Rs. 1,493,378 related to the period more than 05 years.	That step will be taken to recover the outstanding tax balances.	Action should be taken to recover the balances due promptly.
(b)	The total of 04 accounts payable as at 31st December of the year under review was Rs. 261,779,853, out of which there was a balance of Rs. 180,200,681 relating to the period between years 1 and 5.	That arrangements will be made to release the refundable deposit.	Attention should be paid to the existence of outstanding balances and action should be taken to resolve them.
(c)	Out of the 16 complaints received regarding unauthorized constructions in the year 2024, no follow-up had been done on the actions taken in respect of 05 complaints.	The relevant parties have been informed about the measures to be taken regarding unauthorized construction in the year 2024.	Unauthorized constructions should be regulated and the affairs of the sabha should be streamlined.

3.3 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Steps had not been taken to transfer ownership of 71 of the 117 cemeteries maintained by the sabha and the cab owned by the sabha to the sabha.	Submitted requests to obtain transfer orders and are currently investigating and confirming the facts regarding 11 more cemeteries.	Action should be taken to ensure ownership of assets.
(b)	Although the General Assembly held on March 10, 2020 had decided to auction the excavator owned by the sabha, the auction had not taken place as of February 20, 2025.	That this is being corrected.	Assets recommended for disposal should be disposed of promptly.
(c)	The fire engine that had been provided to the Pannala Pradeshiya Sabha by the letter dated 18th February 2005 from the Assistant Director of the Department of Public Fiscal Policy had not been taken over by the sabha and had remained idle since the date of receipt.	This takeover process will be carried out in the future.	Assets should be utilized effectively.

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| (d) | Annual permits had not been obtained for 14 vehicles owned by the sabha during the year under review. Of these, the date of last annual permit acquisition for 06 vehicles could not be identified and annual permits had not been obtained for 08 vehicles for a period of 2-4 years. | No comments were made. | Action should be taken to obtain annual permits for all vehicles. |
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3.4 Delays in Project Activities or Capital work

Audit Observation	Comments of the Council	Recommendation
19 projects for which provisions worth Rs. 16,435,000 had been made had not been initiated during the year under review.	Although it could not be completed in the year under review due to heavy rain and weather conditions, it is currently being implemented.	Public funds should be utilized with maximum efficiency.

3.5 Human Resources Management

	Audit Observation	Comments of the Council	Recommendation
(a)	There were 29 vacancies in 15 approved staff positions in the sabha, of which the vacancies were largely in the posts of Revenue Inspector, Pre-School Teacher, Librarian and Work Inspector, which were mandatory positions in the sabha.	The recruitment for the posts of Revenue Inspector, Pre-School Teacher, Librarian and Work Inspector is being carried out through the Public Service Commission, so this has been informed.	Staff vacancies should be filled and the functions of the sabha should be carried out in an orderly manner.
(b)	Rs. 98,605 from a deceased officer and Rs. 304,434 from officers who left the service were due to be recovered as at 31st December of the year under review.	The loan balance of one officer has been presented unclaimed and the guarantors of the two officers who have left the service are being charged monthly from their salaries.	Action should be taken to recover the loan amount as per the agreement.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Council	Recommendation
Although the sabha had submitted the financial statements for the year under review on 25 February 2025, due to the existence of a balance of	That the matters pointed out by the audit are accepted.	Financial statements should be prepared accurately and submitted on time.

Rs. 345,449,441 in the suspense account and the failure to record certain transactions, the financial statements were withdrawn on 21 May 2025 and revised and submitted again on 14 July 2025.

4.2 Annual Action Plan

Audit Observation	Comments of the Council	Recommendation
14 industries included in the annual action plan, for which provisions of Rs. 80,940,000 had been made in the annual budget, had not been implemented.	All projects have already started.	Action should be taken to utilize public funds in the most efficient manner.

4.3 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
There was a variation of 1 to 94 percent between the estimated and actual revenues of 08 revenue subjects and 1 to 76 percent between the estimated allocation and actual expenditure of 09 expenditure subjects in the year under review. Accordingly, the budget document had not been utilized as an effective management control tool.	Steps will be taken to prepare realistic estimates for the budget to minimize the shortcomings pointed out by the audit.	The budget should be prepared in such a way that it can be used as a control tool that supports the management of the institution.