

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Paduwasnuwara Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, Statement of Financial Operations, Cash Flow Statement 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 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, 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 Paduwasnuwara 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

I expressed qualified opinion regarding financial statements based 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 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) Although the value of the motor grader owned by the sabha in the year under review was revalued at Rs. 15,500,000, the cost was stated in the financial statements at Rs. 18,500,000.	That a correction will be made by journal entry in the preparation of the financial statements for the year ended December 31, 2025.	Steps should be taken to account for accurate values.
(b) As at 31 st December, 2024, the investment interest receivable (fixed deposit interest) of Rs. 1,556,232 had been debited to the investment account.	That a correction will be made through a journal entry when preparing the financial statements for the year 2025.	Steps should be taken to prepare accounts correctly.
(c) The value of the land called Ihala Essedduma Pillawa (public cemetery) which was included in the asset register at Rs. 100,000 had not been included in the financial statements.	That it will be included in the preparation of the financial statements for the year 2025.	Steps should be taken to prepare accounts correctly.
(d) The value of 71 land and building units had been incorrectly recorded as Rs.25, Rs.50, Rs.100, Rs.1000 and Rs.2000.	A revaluation of these lands will be carried out and the values will be accounted for when preparing the 2025 financial statement.	Fair value should be disclosed in the financial statements.
(e) The value of the Canon ME 2010 Laser Printer purchased for Rs. 59,000 during the year under review was stated as Rs. 259,000, an excess of Rs. 200,000 in the machinery account.	That error will be corrected when preparing the financial statements for the year 2025.	The value must be precisely identified and accounted for.

1.7 Non- Compliances

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

All observations related to non-compliances with Laws, Rules, Regulations and Management decisions are as follows.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
	Financial Regulations 570 and 571	Action had not been taken to settle the overdue deposit of Rs. 889,000.	According to F.R. 570 and 571, actions will be taken to settle past due deposits exceeding 02 years in the future or to credit them to income.	Financial regulations must be followed.
(b)	Public Administration Circulars 2018 Public Administration Circular No. 02/2018 dated 26th January Section 05	The Human Development Plan had not been prepared in accordance with the circular.	The necessary steps will be taken to submit the Human Resources Development Plan for the coming year.	The human development plan should be prepared and implemented according to the circular.
(c)	Circulars of the Ministry of Finance			
	Circular No. 04/2018 dated 31 December 2018 on Asset Management issued by the Ministry of Finance and Mass Media and the Asset Valuation Guidelines prepared by the Comptroller General's Department	Although the value of government non-financial assets should be accurately calculated when reporting them, assets other than the sabha's vehicles had not been revalued.	It is hoped that a formal revaluation will be carried out in the future for all assets owned by the sabha.	The fair value of the asset should be presented in the financial statements.

03rd and 04th Paragraph	Although non-financial assets with a value of Rs. 5,000 or more should be identified when reporting non-financial assets, the sabha had identified 71 land, 27 machinery, and 122 furniture and fixtures items worth less than Rs. 5,000 as non-financial assets.	When preparing the final accounts for the year 2025, if the price of these goods is less than Rs. 5000 at current values, then steps will be taken to transfer those goods to the consumables account.	Assets should be correctly classified and accounted for according to the circular.
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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 2024 amounted to Rs. 18,323,740 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 21,770,587 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 by the Secretary, the following is the information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year.

Source of Revenue	Estimated Revenue	2024			Total Arrears as at 31 December	2023			Total Arrears as at 31 December
		Revenue billed	Revenue collected	Estimated Revenue		Revenue billed	Revenue collected	Estimated Revenue	
	Rs .000	Rs .000	Rs. 000	Rs .000	Rs .000	Rs .000	Rs .000	Rs .000	Rs .000
(i) Rates and Taxes	2,507	1,740	2,037	-	1835	1739	2362	-	-
(ii) Rent	30,813	29,282	28,980	403	16,431	22,453	22,522	107	107
(iii) License fees	2,650	2,765	2,765	-	3450	2401	2401	-	-
(iv) Other Revenue	4,205	9,815	9,809	-	5800	616	206,888	-	-
	40,175	43,602	43,591	403	27,516	27,209	234,173	107	107

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
Although the revenue due as of December 31 should be the revenue due after adding the last arrears of the previous year to the billed revenue of the year under review and deducting the collected revenue, it is observed that there is a contradiction between these figures according to the data presented.	That the contradictions in the information presented will be corrected and presented.	Accurate data regarding income must be submitted.

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
During the year under review, Rs. 236,570 was incurred as capital expenditure and Rs. 26,665,962 as recurrent expenditure for solid waste management, while only Rs. 143,570 was collected from the sale of biodegradable and non-biodegradable waste.	Among the main functions performed by the Pradeshiya Sabha, priority and social welfare services are at the top of the list, and there are times when it is not possible to obtain a high income from the sale of garbage and fertilizer at a level commensurate with these expenses.	Efforts should be made to increase income by properly managing biodegradable and non-biodegradable waste.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) As at 31 st December of the year under review, Rs. 59,547,495 was due to be collected from 07 accounts receivables that were due between 1 and 5 years ago.	Steps are being taken to settle the remaining balance.	Action should be taken to recover the outstanding balance.

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| (b) | The total of 10 accounts payable as at 31st December of the year under review was Rs.65,737,246, of which Rs.59,407,494 related to the period between 1 and 5 years and Rs.6,329,752 related to more than 5 years. No steps had been taken to verify the existence of these and settle them. | Steps will be taken to settle the relevant balances. | Action should be taken to correct the accounts by confirming the existence of balances and settling the due amounts. |
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3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
29 of lands, totaling nearly 17.2 acres, that could not be leased through tenders remained idle without being used for any purpose.	The sabha will take steps to obtain coconut revenue from lands that were tendered for the third time but for which tenants did not come forward.	The assets of the sabha should be used more effectively.

3.4 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	An assets register had not been maintained for furniture and fixtures.	Work is being done to include relevant information in inventory records and to maintain an asset register for furniture and fixtures.	Steps should be taken to maintain a formal assets register.
(b)	The lands owned by the sabha had not been formally surveyed and fenced off to physically ensure their existence and security.	It is expected that in the future, land boundaries will be marked and fenced, and that funds will be allocated through the budget to carry out the relevant work.	The survival and security of assets must be ensured.
(c)	The water bowser, which cost Rs. 650,000, had not been revalued during the revaluation of motor vehicles and machinery in the year under review.	That it will be re-evaluated next year.	All assets belonging to the asset class must be revalued.
(d)	The sabha did not have the ownership of 15 lands used by the sabha and 131 cemeteries out of 135 cemeteries maintained by the sabha.	Requests have been submitted to the Paduwasnuwara East and Paduwasnuwara West Divisional Secretariats to take over the cemetery.	Steps should be taken over the assets of the sabha.

3.5 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
The sabha's approved plan has approved a revised salary and allowances of Rs. 2,564,328 for 05 persons recruited on casual, substitute, contract or event allowance basis.	Since the approved staff for the year 2013 is not sufficient for the services provided by this institution, 05 casual, substitute and daily workers have been recruited for service on a contractual basis with the approval of the Department of Local Government.	Surplus employees must be approved.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
It is observed that the budget has not been utilized as an effective management control tool due to a variation of 2 percent to 80 percent between the estimated and actual revenues of 07 revenue items and a variation of more than 20 percent between the estimated allocation and actual expenditure of 08 expenditure items.	Price fluctuations have occurred due to cost control, lack of approval, price reductions, etc.	The budget document should be used effectively as a management control tool.