

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Polgahawela Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, Statement of Finance Operation, 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, 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 Polgahawela 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 statement 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 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 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 CAT computer software worth Rs. 932,350 was purchased and used by the council, it had not been accounted for as a non-current asset.	That the accounts will be taken in the year 2025.	Accounts must be prepared correctly.
(b)	The value of 02 buildings completed in the year 2024, amounting to Rs. 1,198,293, had not been capitalized.	That the mistake will be corrected.	Accounts must be prepared correctly.
(c)	As of December 31st of the year under review, staff securities and staff loans amounting to Rs. 16,939 and Rs. 208,000 respectively had not been accounted for.	Actions will be taken in the future to settle this loan balance.	Accounts must be prepared correctly.

1.6.2 Unreconciled Control Accounts

	Audit Observation	Comments of the Council	Recommendation
(a)	The difference in the fixed deposit balance as at 31st December of the year under review was Rs. 320,133 as per the financial statements and the schedules.	That steps will be taken to correct the differences in balances according to the schedules and financial statements.	Action should be taken to identify and correct the reasons for differences between the balances according to the schedules and financial statements.
(b)	As at 31 st December of the year under review, there was a difference of Rs. 608,257 between the disposal value of the property as per the change of equity and the disposal value of the property as per notes of property plant and equipment.	That the error, which was recorded incorrectly due to an oversight, will be corrected.	Financial statements should be prepared accurately.

1.6.3 Failure to submit information required for audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of time analysis reports and schedules, 13 accounting items totaling Rs. 126,759,875 could not be satisfactorily observed during the audit.	That steps will be taken to provide balances confirming information for each accounting subject with the accounts in future years.	Information confirming account balances must be submitted.

1.7 Non- Compliance

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

Non-compliance with Laws, Rules, Regulations and Management Decisions are show below.

Reference to Laws, Non-compliance Rules Regulations etc.	Comments of the Council	Recommendation
Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
F.R. 571(2)	Action had not been taken in accordance with the financial regulations regarding mixed deposits and deposits exceeding 02 years, amounting to Rs. 8,339,406.	Action is already underway to identify balances that can be taken as revenue and to take them as revenue.
		Must act in accordance with financial regulations.

1.8 Transactions not in adequate authority

Audit Observation	Comments of the Council	Recommendation
Although a Memorandum of Understanding (MoU) should be signed with the consent of the Pradeshiya Sabha before commencing the project when a road owned by the council is improved by another institution, the Pradeshiya Sabha and the Divisional Secretariat had not signed a Memorandum of Understanding (MoU) when repairing the road from near the Ranaviru Mawatha Pre-School onwards.	That future project activities will be carried out with a Memorandum of Understanding.	Arrangements should be made to enter into a contract before the project begins.

2. Financial Review

2.1 Financial Results

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. 15,638,074. as compared with the excess of revenue over recurrent expenditure amounted to Rs. 56,265,899 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, the information on estimated revenue, billed revenue, collected revenue and arrears of revenue presented for the year under review and the previous year are as follows.

Source of income	2024 Year				2023 Year			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
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Rates and Taxes	13,275	17,012	19,146	13,977	13,071	13,571	9,479	16,111
Rent	17,033	18,015	19,001	4,448	19,853	15,530	14,809	5,327
License fees	2,200	1,870	1,870	-	2,201	1,452	383	-
Other Revenue	85,530	106,034	106,034	-	98,240	103,518	2,615	-
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Total	118,038	142,931	146,051	18,425	133,365	134,071	27,286	21,438
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The revenue was estimated to be Rs.24,893,000 and Rs.706,000 less than the billed revenue of Rs.142,931,000 and Rs.134,071,000 respectively in the year under review and the previous year. Accordingly, the revenue had not been estimated correctly.

2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	The billed revenue for the year under review was Rs. 142.9 million and Rs. 146 million including arrears of revenue relating to previous years had been collected during the year under review. With the arrears of the previous year, Rs. 18.4 million remained to be recovered at the end of the year under review.	Action will be taken to recover the outstanding amount.	Action should be taken to recover arrears of revenue and billed revenue.

(b) **Rates and Taxes**

The assessed arrears balance at the end of the year under review was Rs.14,221,664, of which the balance outstanding after 5 years was Rs. 1,738,609. No action had been taken to recover these arrears.

Action will be taken to recover the outstanding amounts very quickly.

Action should be taken to recover arrears of revenue promptly.

(c) **Other Revenue**

The court fines and stamp duties amounting to Rs.2,583,750 and Rs.23,190,081 respectively, which were due from the Chief Secretary of the Provincial Council and other authorities as of December 31, 2024, had not been collected.

Action have been taken to recover court fines and stamp duty.

Action should be taken to recover the money receivable.

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 Pradeshia Sabha Act are shown below.

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	As at 31 st December of the year under review, 11 accounts receivable had a balance of Rs. 47,909,398, of which Rs.8,695,059 was outstanding for a period of 5 years.	That efforts are being made to recover the outstanding amount.	Action should be taken to recover the balance due.
(b)	As at 31 st December of the year under review, out of the balance of Rs.57,335,768 in 04 accounts payable, a balance of Rs. 36,792,522 was outstanding for a period of 5 years.	Action is being done to correct accounts payable.	Action should be taken to settle the outstanding amounts.
(c)	Action had not been taken to settle a balance of recoverable VAT of Rs.2,217,809.	That will work to correct it in the future.	Action must be taken to resolve the matter.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Although the water project, which was owned by a private company and costing Rs. 7.5 million, had been handed over to the council, it had only been used to generate revenue by supplying water to two government institutions in the area.	That water supplies will be provided in the future, taking into account the community's demands for water and the capacity of the water source.	The council should work to generate revenue by the community's water needs.
(b)	24 industries that were required to obtain annual environmental protection permits had not taken action to renew the relevant permits.	Arrangements have already been made to renew the licenses.	Action should be taken to issue environmental permits to minimize environmental pollution.
(c)	Although the council had commenced construction of a multi-purpose building in 2020 and completed the first phase on 12 August 2022 and handed it over to the council, the council had lost an income of Rs. 3,640,000 due to the fact that the lease had not been granted by 31 December 2024.	It has been stated that it has not been possible to lease the shops since the multi-purpose building had not been provided with electricity.	Efforts should be made to generate maximum income from council assets.
(d)	For the project of installing interlock stone from a council road 8,350 interlock stones worth Rs. 306,250 provided on loan basis in 2021 Rs. 240,439 was to be recoverable at the end of the year under review.	That the amount of loan to be recovered will be recovered promptly.	Taking into account the loss suffered by the council, action should be taken to impose surcharges in the future.

3.3 Idle and under utilized assets

	Audit Observation	Comments of the Council	Recommendation
(a)	A tipper truck and a compactor owned by the council have been idle since 2023.	It is scheduled to be used for council industries in the coming days.	Council assets should be utilized as efficiently and effectively as possible.
(b)	The huller machine purchased in 2020 for the Solid Waste Management Center had not been put into use by the end of the year under review.	One machine is being used, but the other machine is not being used for spreading fertilizer because it is not installed properly and has not been connected to electricity.	Action should be made to generate maximum income from council assets.

(c)	The four (4) interlock production machines, worth Rs. 1,397,152, and four (4) tanks of unknown value, a building, and the land had been lying idle for about 5 years for the interlock production project.	The 4 motors of the 4 interlock production machines have now been handed over to the main warehouse for safety.	Council assets should be utilized with maximum efficiency.
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3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
Even at the end of the year under review, steps had not been taken to acquire the ownership of 24 lands valued at Rs. 6,210,825 enjoyed by the Council.	Further action are being taken to identify these lands and acquire them through a legal deed.	Action should be taken to take over the lands used by the council.

3.5 Contract Administration

Audit Observation	Comments of the Council	Recommendation
In the project to repair a council road, 04 work items worth Rs. 35,100 had not been completed, and although Rs. 138,950 had been paid for Gravel Spreading, Watering & Rolled including hire charge under work item number 09, the roller had not been used for this road.	During the road repair project, a portion of the road was washed away due to heavy rains. Since that portion also had to be repaired urgently, the funds were used to repair the embankment section instead of completing the work under subject numbers 11,12,13,14.	Prior approval must be obtained when work estimates are revised and additional payments must be collected.

3.6 Human Resources Management

(a) Staff vacancies and excesses

	Audit Observation	Comments of the Council	Recommendation
(i)	Four revenue inspectors included in the approved staff of the Council had been vacant for a long time and their duties had been performed by office assistants and labors.	Requests have been made to give priority to filling vacancies.	Action should be taken to fill vacant positions and the affairs of the Council should be conducted in an orderly manner.
(ii)	15 employees had been recruited for 11 posts without the approval of the Department of Management Services and 52 employees had been employed in excess of the approved staff.	That it has been forwarded to the Department of Management Services for approval.	Recruitment should be made with the approval of the Department of Management Services.

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| (iii) | 20 employees were deployed to perform duties in another position without performing the duties related to the position they were recruited for. | New officers have been appointed to cover the duties due to vacancies not being filled. | Action should be taken to fill vacant positions. |
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4. Accountability and Good Governance

4.1 Annual Action Plan

	Audit Observation	Comments of the Council	Recommendation
(i)	According to the action plan for the year under review, out of the 49 projects planned to be implemented in the Physical Planning, Roads, Lands and Buildings Sector, 45 projects for which provisions of Rs. 18,000,000 had been made had not been implemented.	Due to public demands and urgent needs of the office, other projects had to be implemented instead of the proposals in the action plan.	Needs should be identified and achievable projects should be included in the annual action plan.
(ii)	07 projects worth Rs. 5,055,764 which were not included in the action plan of the year under review were implemented without making provisions in the annual budget.	Due to public demands and urgent needs of the office, other projects had to be implemented instead of the proposals in the action plan.	Efforts should be made to complete the projects included in the annual action plan.

4.2 Environmental Problems

	Audit Observation	Comments of the Council	Recommendation
(i)	It was observed that during the rainy season, the waste from the Pilisaru Solid Waste Management Center mixes with the incoming water and is discharged through the drainage system and flows towards the Maa Oya through the ditches on both sides of the road.	Action will be taken to remove the mountain of garbage on the site and make way for a suitable site.	Solid waste management should be streamlined and efforts should be made to create a healthy environment for the people.
(ii)	An environmental protection permit had not been obtained for the Pilisaru Solid Waste Management Center.	Action will be taken in the future to obtain an environmental protection permit for the project.	Environmental laws and regulations must be followed.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
The council, aware of the 2030 Agenda for Sustainable Development, had implemented 17 programs at a cost of Rs. 14,700,000 for the various needs of the people in the council area.	No comments were made.	Action must be taken to achieve sustainable development goals and targets.