

**1. Financial Statement**

**1.1 Qualified Opinion**

The audit of the financial statements of the Padiyathalawa Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the comprehensive income statement, cash flow statement, statement of changes in equity, significant accounting policies and the summary of other explanatory 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 the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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, because of the significance 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 Padiyathalawa Pradeshiya Sabha as at 31 December 2023 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

**1.2 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 1.6 of this report in respect of the financial statements.

My opinion is qualified 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 the 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.

Those charged with governance are responsible for overseeing the financial reporting process of the Pradeshiya Sabha. 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 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 misstatements, 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 a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and asses the risks of material misstatements in financial statements whether due to fraud or error 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 an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design audit procedure that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the 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 discourses, 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:

The scope of audit has also been widened to examine the following as far as possible and whenever necessary.

- 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 compiled 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements

- As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year
- The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

## 1.6 Audit observations related to the preparation of financial statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Court fine income of Rs.308, 000 which should be received for September and October 2023, had not been accounted.	Agreed. Actions will be taken to make due correction in preparation of the final accounts through the journals.	Actions should be taken to correct the accounts correctly.
(b) In relation to the Vahawa hot springs development project, Rs.449,744 were overstated as industry debtors and industry creditors and the amount of retention due in relation to that project was Rs.49,972 and it had not been accounted .	Agreed. Actions will be taken to make due correction at the time of preparing the final accounts of the coming year through the journals	- Do -
(c) The value of Rs. 997,716 had not been capitalized in the two projects of construction of the roof of the garbage yard and development of hot water springs which had been completed during the year under review.	Agreed. Actions will be taken to capitalize the relevant project values in the preparation of the next year's accounts.	- Do -
(d) As on 31 December of the year under review, despite the balance of the Regional Development Assistance Project Account and cash book was zero, the money transfer account had an excess credit balance of Rs.2,587,419.	Agreed. Actions will be taken to correct in the preparation of the next year's accounts.	- Do -

- (e) In relation to the year under review, the cost of supplies (603) was understated by Rs.1,051,650. - Do - - Do -

### 1.6.2 Un-reconciled control accounts or records

Audit Observation	Comments of the Council	Recommendation
(a) As on 31 December of the year under review, there was a discrepancy of Rs.19, 453,528 between the balances as per the schedules and the balances as per the financial statements of 04 accounting subjects.	Agreed. Actions are taken to account properly in the preparation of the next year's accounts.	Actions should be taken to update the documents correctly and identify the reasons for discrepancies and correct them.
(b) In the cash flow statement for the year under review, there was a mismatch of Rs.9, 944,447 between the value after adding cash and cash equivalents at the beginning of the year and the value of cash and cash equivalents at the end of the year to the correct aggregate value of net cash flow generated during the year.	Actions will be taken to correct such written and typographical errors in the preparation of the cash flow statement for the coming year.	Actions should be taken to prepare the Cash flow statement and present correctly.

### 1.6.3 Absence of written evidence for audit

Subject	Value Rs.	Written evidence not submitted	Comments of the Council	Recommendation
(a) Land and buildings	657,916,979	(i) Land Deeds (ii) Schedules including value of land and buildings (iii) Property survey reports (iv) Updated fixed asset registers	Agreed. There has been a delay in getting the deeds as agreements have to be signed with the Assistant Commissioner of Local Government for 10 deeds. And actions will be taken to carry out the survey and update in the future.	Evidence should be submitted to confirm the account balances shown in the financial statements.
(b) Plants and Machineries	7,439,570	(i) Schedules including the value (ii) Fixed Assets Registers	Actions are taken to update schedules and fixed asset records.	- Do -
(c) Installation of wooden furniture	10,878,888			

(d)	Field stores	3,360	(i) Schedules (ii) Documents (iii) Balance Confirmations	There are no proofs of schedules and balances for these accounts and the balances have been coming more than 08 years old.	Actions should be taken to submit Evidence in order to confirm the account balances shown in the financial statements.
(e)	Revenue Debtors (Rent)	24,115			
(f)	Cash in hand	475			
(g)	Bank of Ceylon	1,000			
(h)	Surcharge	1,500			
(i)	Stamp duty	127,275			
(j)	VAT	9,600			
(k)	S.L.T.B Creditor	93,479			
(l)	Deposit in place of income	131,329			

## 1.7 Non-compliances

### 1.7.1 Non-compliance with laws, rules, regulations and management decisions

Following are the instances where laws, rules, regulations and management decisions were not complied with.

<b>Reference to laws, rules and regulations and management decisions</b>	<b>Non-compliances</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The Employees' Provident Fund (EPF) Act No. 15 of 1958 and the Employees' Trust Fund (ETF) Act of 1980	Although contributions should be calculated based on the gross salary, due to the calculation of contributions based on the basic salary by the Pradeshiya Sabha, employees' provident funds of Rs. 53,162 and Trust funds of Rs. 7,974 had been calculated and sent funds in relation to 05 months from August to December of the reviewed year.	The calculation of ETF, EPF amount has changed due to the transfer of salary processing officers from time to time and now the salary processing officer has been instructed to calculate the contributions based on the employee's gross salary.	Actions are taken to act according to the provisions of the Act.

- (b) Pradeshiya Sabha 1988  
(Finance and Administration)
- (i) Rule 5(12) No steps had been taken to obtain adequate guarantees from the officers responsible for cash and storage. Agreed. Arrangements are made to obtain adequate guarantees from the officers responsible for cash and storage. Actions should be taken to follow Financial and administrative rules.
- (ii) Rule 59 Although the revenue inspector of the council should prepare a list of trades, business and industries in its limits and submit it to the secretary of the council before 31 March at the beginning of every year, it had not been done accordingly in relation to the year 2023. Agreed. As the revenue inspector of the council was on leave to run as a candidate for the local government election, it was not possible to conduct a survey in the limits and that this will be corrected in the future. - Do -
- (c) Section 7.5 of Eastern Province Chief Secretary No. PT/04/2017 and Provincial Treasury Circular dated 21 September 2017 Although the approval of the local government commissioner should be obtained for the repairs exceeding the limit of Rs.100,000, the approval had not been obtained for 02 repair works of Rs.925,170 and Rs.590,000 of the backhoe machine. Agreed. Actions will be taken to get the approval of the Assistant Commissioner of Local Government in the future in the case of repairs that exceed the limit of Rs.100,000. Actions should be taken to act in terms of the circular.
- (d) Paragraph 3 of Public Administration Circular No. 30/2016 dated 29 December 2016 Although Vehicle fuel combustion should be checked once every 12 months or after 25,000 km driving, the council had not done so. Agreed. Actions will be taken to carry out the vehicle fuel combustion test in the near future. - Do -

**2. Financial Review**  
**2.1 Financial Results**

According to the submitted Financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2023 was Rs. 4,913,718 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs.1,046,831.

**2.2 Revenue Administration**

**2.2.1. Estimated Revenues, Billed Revenues, Accrued Revenues and Outstanding Revenues**

According to the information presented by the chairman, the following is the information about the estimated income, billed income, collected income and arrears related to the year under review and the previous year.

Source of income	2023				2022			
	Estimated income	Billed income	Collected income	Total deficit as on 31	Estimated income	Billed income	Collected income	Total deficit as on 31
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	Rs (.)
i. Rates & Taxes	206,000	202,250	202,250	-	206,000	228,910	228,910	-
ii. Rent	7,182,000	6,182,302	6,153,712	1,924,114	6,177,000	5,083,410	5,977,837	1,895,524
iii. License charges	322,000	484,325	484,325	-	276,000	265,175	265,175	-
iv. Other income	2,464,000	2,047,186	2,047,186	24,115	2,634,000	2,783,788	2,783,788	24,115
<b>Total</b>	<b>10,174,000</b>	<b>8,916,063</b>	<b>8,887,473</b>	<b>1,948,229</b>	<b>9,293,000</b>	<b>8,361,283</b>	<b>9,255,710</b>	<b>1,919,639</b>

**2.2.2 Performance in Revenue Collection**

Audit Observation	Comments of the Council	Recommendation
As on 31 December of the year under review, the outstanding rent income was Rs.1,924,114.	Agreed. Actions are taken to recover the outstanding rent.	As per the agreement, the outstanding revenues should be recovered promptly.

**3. Operational review**

**3.1 Performance of functions assigned by the Act**

Audit Observation	Comments of the Council	Recommendation
Under Section 126 of the Pradeshiya Sabhas Act, by-laws had not been identified and enacted and by 31 December 2023, only 05 by-laws had been enacted.	03 new by-laws have been prepared and submitted for approval and other by-laws will be prepared in the future.	Actions should be taken to enact and legalize By-laws.

### 3.2 Management inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In the year 2023, the Pradeshiya Sabha had collected 10 tons of decomposable garbage and 20 tons of non-decomposable garbage, for an annual total of 360 tons of garbage at a cost of Rs. 2,011,840. About 1,215 kg of compost was produced using decomposable waste and 449 kg of that stock was sold and only an income of Rs.11,225 had been collected in the year 2023.	Agreed. Since the government has given more free organic fertilizers to the farmers and the quantity of organic fertilizers obtained from our company has decreased, which has greatly affected the decrease in sales.	Actions will be taken to prepare and implement a program to increase the production and sale of compost.
(b) Necessary measures had not been taken to identify the responsible parties in respect of 33 items of goods that were identified as deficient by the Board of Survey 2022 of the local council and bring the relevant goods to the council or to recover the related values from the responsible parties.	Actions will be taken to recover the value of the items identified as deficient by the Board of Survey 2022 from the responsible officials.	Arrangements should be made to identify the responsible parties and bring the goods or recover the value.
(c) According to decision no. 27 dated 05 July 2023, the investigation committee on interim leases found that 19 shop rooms belonging to the local council have been leased out and it was observed that the amount of rent given in such interim lease exceeded the rent paid to the local council ranging from Rs.2,400 to Rs.25,900 and although the Pradeshiya Sabha took over these shops to the council and started re-tendering, It was observed that more than 06 months have passed since the work was suspended due to the notice to suspend the re-tendering until it is confirmed whether these shops have been given an interim lease through the letter dated 31 July 2023 of the Assistant Commissioner of Local Government and a formal investigation report should be obtained in this regard and the necessary work should have been implemented promptly.	Agreed. Only the shop rent based on assessment will be collected by the local council. The Assistant Commissioner of Ampara Local Government has sent us a letter informing us that the re-tendering will be suspended until it is confirmed whether the shop rooms have been specifically leased. The investigation report on this has not been received yet.	Arrangements should be made to legitimize the sub-lessees or take over the shops to the council and tender them.
(d) The local council had purchased machinery and equipment worth Rs.6,788,205 during the period from 08 July 2023 to 13 November 2023 for the lime preparation project under the Local Development Project (LDSP - PT 2). The equipment purchased had been stored unused	Agreed. Money was allocated only for the purchase of goods related to the project associated to lime production Under LDSP - PT 2 in the first	Actions should be taken to carry out the construction of the building promptly and put the machines

in the warehouse and the vehicle yard due to providing provisions for the purchase of machinery and equipment before repairing the building required to implement this project and due to this, the warranty period of the equipment had already exceeded 08 months even though it had not been used.

phase and it has been informed that the provision for the construction of the building will be provided in the second phase.

and equipment into use.

**(e) investigation on Cab Accident**  
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- (i) In accordance with Rule No. 1.4(I) enacted on local councils by the Governor of Eastern Province No. 2184/9 and the Gazette (Extraordinary) published dated 13 July, 2020, the relevant permission to take the vehicle outside of the district should be obtained from the Local Government Commissioner in the specified format, but contrary to that the cab was involved in an accident near junction 51 of Padiyathalawa Mahiyanganaya road when the Chairman of the Pradeshiya Sabha was driving to Mahiyanganaya Hospital outside the district for a personal purpose on February 13, 2023, Agreed. The accident had happened while going to get treatment for an emergency. The Chairman says that he informed the Assistant Commissioner of Ampara Local Government over the phone that the Chairman of the Council is going to Mahianganaya Hospital for treatment. Actions should be taken to obtain a prior written approval of the Local Government Commissioner.
- (ii) According to Financial Regulation 104(4), although a full report should be prepared after an investigation and submitted within three months from the date of occurrence of the loss, Despite the lapse of 10 months since the accident, such a report had not been prepared and submitted to determine the value of the relevant damages. Preliminary investigations have been conducted and initial report has sent to the Ampara Local Government Assistant Commissioner's office. Actions should be taken to act according to Financial regulations.

**3.3 Asset Management**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Necessary measures were not taken to repair and re-use or dispose of 07 existing vehicles in the council's possession.	The vehicles are assessed for auctioning and letters sent to those institutions	Actions should be taken to auction the disposed of vehicles.
(b) Necessary arrangements had not been made to transfer the ownership of 10 vehicles under the care of the council to the name of the council.	Agreed. requests and letters have been sent to the relevant institutions for assignment work	Actions should be taken to register the Vehicles which had not been currently registered in the name of the council, in the name of the council.

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|-----|--|--|---|
| (c) | The value of 36 cemeteries belonging to the local council had not been identified and accounted. | Agreed. the cemetery value will be assessed in the future. | Actions should be taken to identify and account the values. |
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### 3.4 Humana Resource Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>	
(a)	At the end of the year under review, there were 09 vacancies in the council.	It has been informed in respect of the vacancies.	Necessary steps should be taken to fill up the vacancies of the staff and get the surplus staff approved.
(b)	According to the employee loan register, 03 loan balances worth Rs.226,570 of two deceased officers and a transferred officer remained uncollected for more than 05 years from 02 years.	Agreed.it is because of being unable to locate a company that has moved, unable to locate details of guarantors and recovery of remaining amount through death gratuity.	Arrangements should be made to recover outstanding loan balances.

## 4. Accountability and good governance

### 4.1 Internal Audit

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
In terms of Section 40 of the National Audit Act No. 19 of 2018 and Financial Regulation 133(1), internal audit had not prepared and implemented adequate recommendations to improve corporate operational processes and enhance performance covering all functions of the House.	Agreed. Actions will be taken to function internal audit in an adequate manner to improve organizational operational processes and enhance performance.	According to the Act, actions should be taken to prepare and implement recommendations for improving organizational operational processes and increasing performance.

### 4.2 Audit Committee

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
In accordance with the Circular No. DMA/01-2019 dated January 12, 2019 of the Management Audit Department on Internal Audit Guidelines; the Council did not establish Audit and Management Committees and hold committee meetings during the year under review.	Agreed. Actions will be taken to form the audit and management committees.	Steps should be taken to initiate procedures and hold meetings for the Audit and Management Committee.

#### 4.3 Environmental Issues

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Although An environmental license should be obtained from the Central Environment Authority under the Environmental Act No. 47 of 1980, amended by Acts No. 56 of 1988 and No. 53 of 2000,for the solid waste management center carried out by Pradeshiya Sabha in Kirawana area, the solid waste management center had been maintained without obtaining an environmental license	Agreed. I will take action to get an environmental license in the coming year.	A valid environmental permit should be obtained.

#### 4.4 Sustainable Development Goals

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
According to the Sustainable Development Act No. 19 of 2017, the council had not taken sufficient measures to collect the necessary data and make the necessary financial provision for achieving the sustainable development goals and objectives.	Agreed. Adequate measures will be taken in this regard in the future.	According to the circular, the council should take actions for achieving the sustainable development goals and objectives.