

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nagoda Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Statement of financial position as at 31 December 2024, Statement of Financial Operations, Statement of changes in net assets, 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 Sub-Section 10(1) of the National Audit Act No 19 of 2018, Sub-Section 172 (1) of the 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 accompanying financial statements give a true and fair view of the financial position of the Nagoda 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 (1)16of 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 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 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 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	Comment of the Sabha	Recommendation
(a)	Although the stamp duty billing for the year was Rs. 535,000, by accounting it as Rs. 7.8 million, the income for the year was overstated by Rs. 7.27 million.	It will be accounted correctly in the future.	Income related to the year should be recognized and accounted on an accrual basis.
(b)	Due to under-accounting of stamp duty of Rs.7.52 million, the arrears of income as at the end of the year under review was understated by that amount.	It will be accounted correctly in the future.	Income related to the year should be recognized and accounted on an accrual basis.
(c)	The retention amount of Rs. 226,006 relating to the construction of the auditorium and library located at the Udugama Sub-Office premises had not been accounted under creditors.	It will be accounted correctly in the future.	The retention amount should be accounted under creditors.
(d)	The amount of Rs.617,736 that had been given to the Sabha in excess by the Local Government Department in relation to the project to construct the access road to the crematorium had not been shown under the creditor balance.	It will be accounted correctly in the future.	Credit balances must be accurately identified and accounted.
(e)	The creditor balance was overstated by that amount because the amount of Rs. 99,065 paid for repairs was credited to the creditors account instead of being credited to the cash account.	It will be accounted correctly in the future.	The nature of expenses should be identified and accounted correctly.

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| (f) | The full bill value related to the repair of the Sabha solid waste management center had been paid, but an amount of Rs.54,300 had been stated to be payable. | It will be accounted correctly in the future. | Expenses must be accurately identified and accounted. |
| (g) | Although the non-refundable deposits of Rs. 212,500 received from library members in previous years should have been accounted as income, the accumulated fund was understated by that amount due to being accounted under deposits. | It will be accounted correctly in the future. | Income should be accurately identified and accounted. |
| (h) | The value of the solar panel system, which was donated to the Sabha, amounting to Rs.3.99 million, and the income generated by the solar panel system during the year under review had not been accounted . | It will be accounted correctly in the future. | Fixed assets should be capitalized correctly and the income generated from that asset should be accounted annually. |
| (i) | The values of Rs. 16.9 million spent on building renovation and construction activities and Rs. 96,800 spent on purchasing office equipment had not been capitalized. | It will be accounted correctly in the future. | Fixed assets should be capitalized correctly. |
| (j) | The excess amount of Rs. 65,468 received from the Local Government Department for salary reimbursement in the year under review had not been shown as a balance to be paid. | It will be accounted correctly in the future. | Should be accounted correctly. |

1.6.2 Un reconciled control account

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs. 3.4 million between the balances relating to 12 accounting items shown in the financial statements and the balances shown in the supporting documents relating to them as at 31 December of the year under review.	Action will be taken to correct it in the future.	The reasons for the difference should be identified and corrected.

1.6.3 Suspense Accounts

Audit Observation	Comment of the Sabha	Recommendation
The credit balance of Rs. 18,315 in a suspense account, which had existed since 2014, had not been cleared in the year under review.	Action will be taken to correct it in the future.	Action should be taken to promptly settle the ongoing balance of the suspense account.

1.6.4 Documentary evidence not available for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to the failure to submit updated fixed asset register and detailed schedules, 06 accounting items valued at Rs.12,276.31 million could not be satisfactorily examined.	Action will be taken to correct it and submit it for audit in the future.	Evidence should be submitted to the audit to verify the balance.

1.7 Non-compliances

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

Non-compliance with laws, rules, regulations and management decisions are shown below.

Reference to Laws, Rules, Regulation	Non-Compliance	Comment of the Sabha	Recommendation
Finance Regulations of the Democratic Socialist Republic of Sri Lanka.			
(a) Finance Regulations 104	Action had not been taken in accordance with Financial Regulation 104 regarding the damage caused to a tractor in 2023.	Investigations are underway.	The loss should be compensated in accordance with financial regulations.
(b) Finance Regulations 571	Action had not been taken to settle 68 deposits of Rs.2.89 million, which were overdue for a period of 02 years.	That will be corrected in the future.	Actions should be taken in accordance with financial regulations.

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. 5.58 millionas against with the excess of recurrent expenditure over revenue amounting to Rs. 1.10 million 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 estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

2024

2023

Source of Revenue		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	1,385,000	768,815	1,026,221	121,815	1,315,000	561,850	582,269	379,221
(ii)	rent	7,478,120	4,266,436	3,953,243	1,038,580	3,379,200	2,967,456	2,859,710	725,387
(iii)	License Fees	1,375,500	306,416	117,866	292,073	1,100,500	1,086,328	982,805	103,523
(iv)	Other revenue	6,131,100	46,976,531	50,494,665	11,282,995	1,705,000	830,496	830,496	14,801,129
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		16,369,720	52,318,198	55,591,995	12,735,463	7,499,700	5,446,130	5,255,280	16,009,260
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2.2.2 Performance in Revenue Collection

.Observations related to performance in revenue collection of the Sabha are given below

Audit Observation		Comment of the Sabha	Recommendation
(a)	Rates and Taxes		
	Although 06 Grama Seva Divisions were designated as developed areas in the year 2023, action had not been taken to levy rates tax in accordance with Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987.	Reports are currently being collected.	Action should be taken to identify the areas where rates taxes should be imposed.
(b)	Rent		
	The Sabha had not taken any action to recover the rent of Rs.570,280 due from 15 shops of the Sabha in terms of Section 159(1) of the Pradeshiya Sabha Act, 1987.	Instructions have been given to pay the outstanding balances through reminder letters and telephone calls.	An appropriate program should be developed promptly to recover the outstanding balances without delay.
(c)	Business taxes		
	As at the last day of the year under review, there was a business tax arrears of Rs.89,400 from 79 units.	Action are being made to recover the outstanding balances.	An appropriate program should be developed promptly to recover the outstanding balances without delay.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	When the Sabha-owned Aluthwatta Sathipola was put out to tender, it could have generated an annual income of Rs. 288,000 by charging Rs. 6,000 per week, but the Sabha revenue inspector set the minimum bid at Rs. 3,000 per week, resulting in a reduction in annual income of Rs. 144,000.	The market will be leased out through tender for the coming year.	Revenues should be accurately forecasted.
(b)	In accordance with Public Administration Circular No. 09/2009 dated 16th April 2009, overtime allowances of Rs. 114,470 were paid to 37 officers of the Sabha without verifying their attendance and departure through the fingerprint machine when paying overtime allowances.	Instructions have been given to mark the arrival and departure of the fingerprint machine in the future.	The officers who approve the payment and certify the expenditure and make the payments should be held accountable without basing it on the arrival and departure time of the fingerprint machine.

3.2 Operational Inefficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	41 institutions within the Sabha jurisdiction that were required to obtain environmental protection permits had not obtained environmental protection permits, and the Sabha had lost Rs. 184,500 in permit fees and Rs. 123,000 in inspection fees.	Will take action to issue licenses to industries that require environmental licenses in the future.	Institutions that should be licensed as required should be identified and action should be taken to collect revenue.
(b)	Although Rs. 266,270 had been spent from the Sabha fund during the year under review to document the road inventory in the Sabha area, the work of preparing the road inventory had not been completed as the survey work in 25 Grama Niladhari divisions had not been completed by December 31 of the year under review.	Preparation of the inventory of the road is being carried out by deploying officers.	Preparation of the inventory of the road should be completed within the prescribed period.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) Two vehicles valued Rs. 3.037 million, which were in need of repair, were parked idle at the Udugama Sub-district Office.	Repairs are carried out based on need and priority	Assets should be repaired promptly and used for their intended purposes without being left idle.
(b) 46 units of 06 electrical stock items purchased by the Sabha for street light repairs had been idle since 2020.	Unusable items will be referred to the board of survey.	Purchases should be made by accurately forecasting the need, and appropriate action should be taken against officers who make unnecessary stock purchases.