

**1. Financial Statement**

**1.1 Qualified Opinion**

The audit of the financial statements of the Wattala Pradeshiya Sabha for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, Statement of Comprehensive Income, Statement of Changes in Net Assets/Equities, 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 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and Sub-Section 10 (1) of the National Audit Act No.19 of 2018. My comments and observations which I consider should be reported 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 Wattala Pradeshiya Sabha as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

**1.2 Basis for Qualified Opinion**

I expressed qualified opinion regarding the 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 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 Statement**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities 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:

- Identified and assessed 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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 is 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**

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

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## **1.6. Audit Observations on the preparation of Financial Statements**

### **1.6.1. Non- compliance with the Public Sector Accounting Standards for the Local Authorities**

<b>Non-compliance with the reference to particular Standards</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) In terms of paragraph 3.7 of chapter 3 of the Standard, the budgeted information included in the budget document prepared by the entity had not been presented in the financial statements for the year under review.	It was stated that action would be taken to present the budgeted information when submitting the financial statements for the year 2025.	Action should be taken in accordance with the Standard.
(b) According to paragraph 2.5 of chapter 2 of the Standard, financial statements should be prepared on an accrual basis. However, court fines amounting to Rs. 15,997,915 received during the year under review in respect of previous years had been accounted for as income of the year under review.	When preparing the final accounts for the year 2025, action would be taken to properly reconcile the income received during the current year relating to previous years with the accumulated fund through appropriate journal entries.	Action should be taken in accordance with the Standard.

### **1.6.2 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Due to the fact that out of the capital grants received in respect of roads, bridges, culverts, and library books, capital grants amounting to Rs. 146,104 relating to the year under review, which had not been identified as income even as at 01 January 2024, had been identified as income under transfers made by the Government for non-recurrent expenditure, the surplus had been understated by that amount.	It was stated that action would be taken to rectify the error when preparing the final accounts for the year 2025.	Action should be taken to correct the accounts.

### 1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Sabha	Recommendation
According to the financial statements as at the end of the year under review, the value of arrears of trade tax amounted to Rs. 86,784,879. However, according to the age analysis report of arrears of revenue, the value of arrears of trade tax as at that date was Rs. 91,261,340, resulting in a difference of Rs. 4,476,461.	The institution which developed the software would take action to examine and rectify the said difference.	The arrears of revenue records should be maintained up to date, and the financial statements should be prepared based on those records. The difference should be identified and the accounts should be corrected accordingly.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

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

	Reference to Laws, Rules, Regulations Etc	Non-compliance	Comment of the Sabha	Recommendation
(a)	Section 20 of the Rating and Valuation Ordinance No. 30 of 1946	Although the assessment of rates should be carried out once every five years, the billings for the year under review had been made based on the rate assessment conducted in the year 2008.	Although requests had been made on several occasions from the Department of Valuation to carry out a new assessment from the year 2017, that task had not been completed up to now.	Action should be taken in accordance with the provisions of the Act.
(b)	Financial Regulation No. 371 (1) and (2) of the Democratic Socialist Republic of Sri Lanka	Although 14 deposits belonging to two types of deposits amounting to Rs. 369,512 had expired, they had not been settled.	It was stated that if not recovered within the given period, action would be taken to credit it to the income of the Council.	Overdue deposits should be regulated.

## 2 Financial Review

### 2.1 Financial Result

According to the financial statements presented, excess of revenue over expenditure of the sabha for the year ended 31 December 2024 amounted to Rs.66,634,693 as compared with excess of revenue over expenditure amounted to Rs.436,438,355 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, estimated revenue, revenue billed, revenue collected and arrears relevant to the year under review and the previous year are shown below.

Income Source	Estimate d Income	2024		Arrears as at 31 December	Estimated Income	2023		Arrears Income as at 31st December
		Billed Income	Collected Income			Billed Income	Collected Income	
	Rs.000	Rs.000	Rs.000	Rs.000	Rs. 000	Rs. 000	Rs. 000	Rs.. 000
Rates & Taxes	127,123	112,366	110,598	86,785	104,501	113,584	112,545	85,016
Rent	13,877	14,376	14,078	8,586	10,500	9,767	10,076	8,288
License fees	2,290	2,668	2,668	-	1,840	2,228	2,228	-
Other income	454,979	297,099	297,099	-	407	428	427	-
Total	<u>598,269</u>	<u>426,509</u>	<u>424,443</u>	<u>95,371</u>	<u>117,248</u>	<u>126,007</u>	<u>125,276</u>	<u>93,304</u>

### 2.2.2 Revenue Collecting Performance

Observations relating to Revenue Collection Performance are stated below.

Audit Observation	Comment of the Sabha	Recommendation
<b>Rates and tax</b>		
(a) According to the age analysis of arrears income, the value of arrears of rates and taxes as at the end of the year under review amounted to Rs. 91,261,340, out of which Rs. 11,689,723 had been outstanding for a period between 3 to 5 years, Rs. 31,163,996 for a period between 5 to 10 years, and a further Rs. 16,549,513 for more than 10 years.	Action would be taken to promptly implement the procedure for seizing the properties of the owners who have not paid the taxes.	Action should be taken to recover the arrears of rates.
(b) According to Section 162 of the Pradeshiya Sabha Act, no property seizures or legal actions had been revealed in the audit with regard to the recovery of arrears of rates, and failure to act in accordance with the provisions of the Act had resulted in the continuous accumulation of arrears of rates over a long period.	It was stated that action would be taken to seize the properties of the taxpayers who fail to pay the arrears within the due period.	Action should be taken against the tax defaulters in accordance with the provisions of the Act.

## Rent

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| (c) | As at the end of the year under review, arrears of shops rent income amounting to Rs. 8,148,033 remained recoverable, out of which Rs. 935,691 had been outstanding for a period between 3 to 5 years and Rs. 4,850,802 had been outstanding for a period between 6 to 10 years. | The report containing the recommendations and proposals of the committee appointed comprising 08 officers would be obtained promptly and further action would be taken accordingly. | Action should be taken to recover the arrears of shop rent. |
| (d) | At the beginning of the year under review, arrears of shop rent amounting to Rs. 7,828,883 had been recoverable, of which only a low percentage of about 22 percent had been recovered during the year..   | Action would be taken to settle the arrears.  | Action should be taken to recover the arrears of shop rent. |

## 3 Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) As at 31 December 2024, six vehicles valued at Rs. 36,193,861 had not been transferred under the name of the Council.	It was stated that the necessary documents required for the transfer of these vehicles had been forwarded to the relevant institutions.	Action should be taken to transfer the vehicles.
(b) The Value Added Tax payable amounting to Rs. 1,419,445, which had been outstanding since the year 2020, had not been settled.	Inquiries had been made from the Department of Inland Revenue regarding this matter, and necessary action was being taken to settle the tax balance.	The amount of Value Added Tax payable should be settled.
(c) A total sum of Rs. 442,294 relating to three projects, comprising Rs. 251,701 for two projects in the year 2019 and Rs. 190,593 for one project in the year 2021 had not been reimbursed by the end of the year under review.	It was stated that a written notification had been sent to the Divisional Secretary requesting the release of the 10% retention charges related to these projects to the Council.	Action should be taken to obtain the reimbursement.

### 3.2 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
It was observed that out of 164 plots of land used by the Council, 75 plots had no deeds and 63 plots had no land permits, and the ownership of those lands had not been ensured.	Action would be taken to prepare title deeds immediately upon receiving the report on lands from the Divisional Secretary, and thereafter to prepare the land permits.	Action should be taken to confirm and secure the ownership of the properties belonging to the Council.

### 3.3 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
<b>(a) Staff vacancies</b>		
(i) According to the Public Administration Circular No. 18/2001 dated 22 August 2001, transfers should be made once every five years. However, as at 10 January 2025, it was observed that one Revenue Inspector who had served for 09 years, two Librarians who had served for periods ranging from 11 to 15 years, five Development Officers who had served for periods ranging from 6 to 11 years, and twenty-one Management Service Officers who had served for periods ranging from 6 to 29 years had continued to serve in the Council without being transferred for many years.	It was observed that due to the issues arising in carrying out the functions of the Council, action had not been taken to release the officers from service until substitute officers were appointed.	Action should be taken in accordance with the circular.
(ii) According to the approved staff details as at 31 December 2024, it was observed that there were 12 vacant positions.	Although requests had been made to fill the vacancies, action had not been taken to fill them up to now.	Action should be taken to fill the vacancies.

(b) **Disciplinary Actions**

According to the disciplinary order No. LGD/02E/22/03/173 dated 16 July 2024 issued by the Western Provincial Commissioner of Local Government, a sum of Rs. 684,000 recoverable from a female Management Service Officer who had served in the Wattala Pradeshiya Sabha had not been recovered even by the end of the year under review.	It had been informed that the said officer intended to file an appeal against the disciplinary orders and that the necessary documents had been certified and forwarded for that purpose, and that further action would be taken in accordance with the orders issued based on that appeal.
Action should be taken in accordance with the disciplinary order.	

**4 Accountability and Good Governance**

**4.1 Budgetary control**

Audit Observation	Comment of the Sabha	Recommendation
It was observed that the budget had not been used as a financial control tool, as the entire provision amounting to Rs. 16,125,000 allocated for 20 activities had remained unutilized.	It was stated that attention would be paid to this matter and a proper study would be conducted in preparing a realistic budget for the ensuing year.	Action should be taken to prepare a realistic budget.