

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Panadura Urban Council including the financial statements 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/Equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 Section 181(1) of the Urban Council Ordinance (Chapter 255) and Sub-section 10 (1) of the 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, 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 Panadura Urban Council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

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 the 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 Urban Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council 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 Scope of Audit (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 Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council;
- 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 includes specific provisions for following requirements.

- (a) The financial statements of the Urban Council 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 Non-compliance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions

	Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
(a)	According to paragraph 3.7 of section 3 of the standard, the budgeted information in the budget documents was not presented in the financial statements.	That budgeted information will be presented in the financial statements in the future.	Financial statements should be prepared according to the standard.
(b)	According to paragraph 3.30 of section 3 of the standard, when calculating the net cash flow from financing activities under the statement of cash flows, the value of capital expenditure grants received amounting to Rs. 17,162,541, was recorded as a cash outflow.	That it will be considered and action will be taken in the future.	Financial statements should be prepared according to the standard.
(c)	In accordance with paragraph 3.29 of Section 3 of the Standard, the net cash flow from investing activities under the statement of cash flows should have been Rs.12,930,235 but it was adjusted as Rs.13,036,860.	Since this amount is relevant to the year, it was accounts accounted for.	Financial statements should be prepared according to the standard.
(d)	According to paragraph 3.32 of Chapter 3 of the standard, when calculating the net cash flow from operating activities under the statement of cash flows, the KIOSK machine's annual income of Rs.42,572 was not adjusted to the surplus for the current year, and the income of Rs.35,539 received from the investment in the machine was not shown as a cash inflow under investing activities. Additionally, the depreciation of the machine was not separately disclosed in the expense analysis.	That action will be taken to correct it in the future.	Financial statements should be prepared according to the standard.
(e)	Although comparative information for the previous comparable period should be presented for all amounts presented in the current financial statement period in accordance with paragraph 3.6 of	That action will be taken to correct it in the future.	Financial statements should be prepared according to the standard.

Chapter 3 of the Standard, the prior year amounts had not been presented accurately.

.16.2 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The statement of changes in equity as at 31 December 2024, showed the accumulated surplus as Rs.666,798,636, but the statement of assets and liabilities showed this value as Rs.666,565,418, Therefore, an unreconciled balance of Rs.233,218 had been observed.	That the steps will be taken to present it correctly in the future.	Accounts should be prepared correctly.
(b)	The balance of the Capital Expenditure Grant Account of Rs.26,258,060 as at 31 December 2024 had not been shown as unrecognized capital expenditure grant value in the accumulated surplus in the calculation of net assets in the Statement of Assets and Liabilities.	That the steps will be taken to present it correctly in the future.	Accounts should be prepared correctly.
(c)	When correcting the removal of depreciation related to revalued buildings in the year 2023, the Revaluation Reserve Account should have been credited by Rs.24,207, but instead, the Accumulated Fund was credited.	That the steps will be taken to present it correctly in the future.	Accounts should be prepared correctly.

1.7 Non-compliances with Laws, Rules, Regulations and Management Decisions

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Council	Recommendation
(a)	Urban Councils Ordinance			
(i)	Section 170 (2)	Property seizures had not been carried out as a final step in the recovery of arrears of rates and taxes.	A property seizures program was implemented in 2024, applying to Divisions 03 and 02.	Actions should be taken in accordance with the Urban Councils Ordinance.

(ii)	Section 164 (2) and Tourism Development Act No. 14 of 1968	No fees had been charged from a hotel registered under the Tourist Board, and no account statements had been obtained to verify the amount.	That they were informed through letters and revenue inspectors.	Actions should be taken in accordance with the Urban Councils Ordinance.
(b)	Public Administration Circular No. 09/2009 dated 16 April 2009			
	(i) Section 02(i)	Although the arrival and departure of field officers should be confirmed by fingerprint machines on the days they report to their head office, contrary to the said circular, officers holding the post of Public Health Inspector of the Council had only maintained a register of arrivals.	That a register is maintained to record arrivals and departures.	Action should be taken in accordance with the circular.
	(ii) Section 02(iv)	Where an allowance paid for duties performed after regular working hours is based on time that time should be authenticated by a fingerprint machine. However, Planning Committee allowances amounting to Rs.480,000 were paid for 29 sessions of the Planning Committee from January to October 2024, without the arrival and departure being confirmed by a fingerprint machine.	Fingerprint marking at the end of the Planning Committee meetings has been started from January 2025, and overtime allowances will not be claimed for those dates.	Action should be taken in accordance with the circular.
(c)	Paragraph (XVI) of the Circular No. WP/LGD/01/2012 dated 11 July 2012 of the Commissioner of Local Government	Although it is stated that the planning committee meeting should last more than 2 hours and should be held outside the normal working hours, it was not confirmed whether the planning committee actually	Fingerprinting has begun at the end of planning committees from January 2025, and overtime allowances will not be	Where an allowance paid for duties performed after regular working hours is based on time that time should be

held for 2 hours as received for those authenticated by a
 fingerprint records are not dates. fingerprint
 kept for planning committee machine
 members.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Council for the year ended 31 December 2024 amounted to Rs.75,262,532 compared to the excess of income over recurrent expenditure amounted to Rs.76,395,207 in the preceding year

2.2 Financial Control

	Audit Observation	Comments of the Council	Recommendation
(a)	There was a balance of Rs. 5,981,083 in the account maintained at People's Bank on behalf of the Urban Development Authority, and it had not been utilized for productive purposes with the approval of the Urban Development Authority.	That the money could not be used for productive purposes.	It should be used for useful purposes with the approval of the Urban Development Authority.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information submitted by the Secretary, Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below

Source of Revenue	2024				2023			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	73,000	72,252	76,155	40,276	73,000	73,248	57,330	15,918
(ii) Rent		8,228	7,612	10,770	6,622	7,833	6,775	10,172
(iii) License Fee	421	442	442	-	421	460	460	-
(iv) Other Revenue	2,040	1,965	1,956	9	1,660	1,934	1,944	59
	75,461	82,887	86,165	51,055	81,703	83,475	66,509	26,149

2.3.2 Performance in Collecting Revenue

The following observations are made regarding the revenue collection performance of the Council.

	Audit Observation	Comments of the Council	Recommendation
(a)	Rates and Taxes		
(i)	According to the age analysis report, the total arrears of rates and taxes at the beginning of the year under review was Rs.39,639,846, and out of which Rs.20,428,110 or 52 percent had not been collected as at 31 December 2024.	07 mobile services have been conducted and steps have been taken to collect outstanding amounts in relation to the first quarter of 2025.	Steps should be taken to recover outstanding rates and taxes promptly.
(ii)	According to the age analysis report, the total rates and taxes arrears at the end of the year under review was Rs.40,277,610, and within that arrears, the arrears between 01 and 05 years was Rs.30,423,130 and over 05 years was Rs.9,854,479, and the outstanding balance due from 92 assessment units exceeding Rs.50,000 was Rs.9,705,260.	The collection rate is 29.47 percent and the balance to be collected from 65 properties with a balance of more than Rs.50,000 is Rs.5,569,990.	Steps should be taken to recover outstanding rates and taxes promptly.
(iii)	The Council had not taken steps to recover Rs.238,849 of rates and taxes due from 06 government institutions as of 31 December 2024.	Assessment notices and final announcements have been issued for the 6 relevant government institutions and awareness has also been raised at the institution level.	Steps should be taken to recover outstanding rates and taxes promptly.
(b)	Garbage tax		
	Out of the garbage tax arrears of Rs.2,105,700 as on 01 January 2024, a sum of Rs.962,400 or 45 percent, had not been collected in the year 2024. Accordingly, the total garbage tax value to be collected as on 31 December 2024 was Rs.2,107,540 and the Council had not taken positive steps to collect it.	According to the final account, the balances are Rs.2,107,540 and Rs.1,105,700 respectively, and an amount of Rs.921,400 had been written off from the garbage tax arrears as at 01 January 2024 by a committee decision, and a sum of Rs.1,680,540 has been recovered by May 2025.	Steps should be taken to recover outstanding revenue promptly.

(c)	Rent		
(i)	According to the shop rent information report, the revenue to be collected from shop rent in the year under review was Rs.16,697,007 and as at 31 December 2024, an amount of Rs.10,154,765, which is 60 percent, was to be recovered.	Further efforts are being made to recover outstanding amounts.	Steps should be taken to recover outstanding revenue promptly.
(ii)	The council had failed to collect revenue of Rs.7,661,875 as at 31 December 2024, in respect of 18 Market Road shops leased by the council.	Steps are being taken to recover the outstanding amount.	Steps should be taken to recover outstanding revenue promptly.
(iii)	There is no written agreement between the shop owner who operates shop number L18 and the Urban Council, and the outstanding amount due from that shop as at 31 December 2024 was Rs. 2,068,000.	Steps will be taken to recover the remaining outstanding amounts.	Steps should be taken to recover outstanding revenue promptly.
(d)	Although it was confirmed in a letter from the Railway Department that the lease period of the Railway Station Road land, which had been acquired by the Council on lease for a period of 99 years, would expire on 31 December 1983 the said lease agreement was not submitted for audit and the following observations are made regarding the shops operated by the Council out of 22 shops on the Railway Road on that land.		
(i)	Although the agreements between these shopkeepers and the Urban Council had expired, the Urban Council had not taken steps to enter into new agreements for a long time.	Letters have been sent to the lessees informing them to come and sign the agreement.	Arrangements should be made to reach an agreement.
(ii)	As per the new proposal for the Railway Road Shops, it had been decided in the AGM on 01 August 2019 to collect shop rent from 01 January 2018, the lessees had refused to pay it as the new assessment amount was	An amount of Rs. 67,680 has been collected as at 25.05.2025, and the number of shops in arrears has been reduced to 10.	Steps should be taken to recover outstanding revenue promptly.

higher than the previous assessment. The arrears had arisen due to their continued payment of the old assessment amount, and as at 31 December of the year under review, the arrears amount was Rs.835,368 from 14 stalls.

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| (iii) | The 22 tenants who had been given the land on the Railway Station Road, which was leased by the council for 99 years, had constructed buildings there as they wished, and sufficient information was not presented to the audit regarding how the Panadura Urban Council had provided the plots of land on which the shops were built. | No specific answers have been given. | Necessary written evidence should be submitted. |
| (e) | The Urban Council had provided 54 stalls in the temporary shopping complex on a rental basis, and the outstanding stall rental income due as of 31 December 2024 was Rs.795,000. | Currently, work is underway to send out final announcements. | Steps should be taken to recover outstanding revenue promptly. |
| (ඊ) | The stamp duty due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2024 was Rs.143,290,640. | The stamp duty collected from January to December 2022 is Rs.369,000, and the remaining balance to be collected is Rs.142,921,640. | Steps should be taken to recover outstanding revenue promptly. |

3. Operational Review

3.1 Functions assigned by the Act

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 Council under Section 4 of the Urban Council Ordinance are shown below

	Audit Observation	Comments of the Council	Recommendation
(a)	Regarding the construction of buildings, in terms of the number of applications received during the year 2024 for residential, commercial and boundary walls respectively, 10 out of 62 residential plans, and 01 out of 16 commercial plans, and 04 out of 20 boundary walls, had not been	Delays in approvals occur due to deficiencies in planning applications, and after the necessary amendments are made and the revised plans are resubmitted, they are	Necessary actions regarding applications should be taken promptly.

	approved as of 31 December 2024. The number of compliance certificates issued as of 31 December 2024 was 20 residential and 02 commercial only.	forwarded to the Planning Committee for approval.	
(b)	Although a long-term plan had been prepared with projects planned from 2015 to 2030 to achieve the Sustainable Development Goals, specific programs expected to be implemented in the year 2024 had not been identified and included therein.	That the action plan has been submitted.	The goals expected to be completed by 2024 in the Sustainable Development Plan should be included in the 2024 Action Plan.
(c)	Solid Waste Management		
(i)	No solid waste was sold and only discarded food items were sold from January to June 2024.	Instead of removing the waste at a high cost, the council was able to generate income as a revenue-generating scheme, so the waste was sold for pig feed using a minimum number of workers.	Solid waste management should be carried out systematically.
(ii)	A sum of Rs. 1,630,508 had been paid as overtime to 14 people working in the waste separation service at the Solid Waste Center, and Rs. 153,130 had been spent on providing snacks at night to 5 employees working the night shift from January to June 2024.	The waste management activities are being carried out by minimizing this expense and providing only overtime by July 2024.	Solid waste management should be carried out systematically.
(iii)	Only 1150 kg of plastic had been sold from January to August 2024, and the reasons for selling such a small amount of waste that is constantly generated were problematic during the audit.	There was not enough space to store all the unsegregated waste collected in the landfill, and due to problems caused by the rain and a dengue risk situation, the bulk of the waste had to be transported to the Kerawalapitiya Power Plant and the baled waste had to be transported to the INSEE Institute.	Solid waste management should be carried out systematically.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The value of 6 lands owned by the Panadura Urban Council had not been identified and accounted for.	These 06 lands have been provided for surveying purposes and further work will be carried out as soon as the plans are received.	Lands should be identified and accounted for.
(b) Advances amounting to Rs.1,075,318 continuing from before the year 2000 had not been collected in the year under review.	That the steps will be taken to correct the situation in the final accounts of 2025.	Steps should be taken to recover the advance.

3.3 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) In addition to the approved number of employees, two employees were recruited in the year 2023 and nine employees in the year under review on a labour basis for the projects and needs of the Council.	Since the current number of health workers is not sufficient to handle waste disposal in the area and recruitment has been suspended at this time, employees have been recruited on a labour basis based on the need to continue waste disposal activities.	The approved cadre should be revised and approved.
(b) Although the loan balances of transferred officers should be settled at once with the relevant institutions, a total loan balance of Rs. 1,729,522 had not been settled from 8 employees who had transferred from the council.	It is reported that the loan balances of three out of the 12 employees who have been transferred have been settled and that the relevant installments are being received monthly from 9 of them, with the loan balance amounting to Rs. 1,443,370.	Action should be taken to settle the loan balance.
(c) The outstanding employee loan balance as at 31 December 2024 was Rs.50,832,763, while the uncollectible and unknown loan balance was Rs. 521,639. The balance due from transferred officers was Rs. 2,234,332, the balance due from retired officers was Rs. 1,356,900, and the balance due from deceased and retired officers was Rs. 958,651 as at 31 December 2024.	The outstanding balance of officers who left the service and died has been reduced to Rs. 911,652, and these outstanding balances will be collected monthly in the future, and steps will be taken to collect the outstanding balances of other employees as well.	Action should be taken to recover the outstanding amount.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) The container with a toilet system, which was donated to the Panadura Urban Council to be placed on the Panadura beach, was handed over to a private company on 23 June 2020 for repairs at a cost of Rs.189,040. The Urban Council had temporarily halted the project to install the roof while they were carrying out the renovations until 23 September 2020. However, the project has not been re-implemented since 2020, and the container parked on the railway station road has deteriorated beyond use.	This project has been removed from the journal in 2023, as the General Assembly decided to re-analyze the estimate on 10 September 2020, on the recommendation of the Industry Committee.	Efforts should be made to utilize idle assets.
(b) A software system with 07 subjects for computerizing the office work of the Urban Council was purchased from a private company in 2017 and Rs.178,500 was paid as service fees for the year 2022. Furthermore, the salary and human resources management software purchased for Rs.295,000 on 14 June 2017 had not been implemented to date. It was also observed that in addition to the purchased value for the software, fees were also being paid for services without using them.	According to clause 5.2 of the service agreement, normally after the sale of software, 20 percent of the total value of the software should be paid annually as service fees, but the relevant institution has informed that 5 percent of the value of the software has been charged annually for the service provided by NECFA, and if the value of each software purchased is paid as service fees, a service fee of 10 percent of the total value of the shares will be charged annually. Accordingly, since paying 5 percent of the total value of the system as service fees is beneficial to the institution, it has been taken accordingly.	Efforts should be made to use the software system efficiently.
(c) No action had been taken to dispose of a tractor owned by the council since October 2022 to the end of the year under review.	A committee has been appointed on 05 June 2024 for the disposal, and further work is underway.	Action should be taken to disposed of assets immediately.

4. Accountability and Good Governance

4.1 Budgetary Control

	Audit Observation	Comments of the Council	Recommendation
(a)	Although as per the 2024 Budget of the Panadura Urban Council it was allocated a sum of Rs.28,635,100 for non recurrent expenses, the actual expenditure incurred was Rs.1,015,167.	The remaining amount includes the money allocated for the year 2025 as project creditors, 10 percent of the cash in hand and symbolic funds (including Rs. 100).	The budget should be used as a control tool.
(b)	Out of the budgeted allocation of Rs.2,200,000 made for 05 expenditure codes, a sum of Rs.2,046,838 had not been utilized as at 31 December 2024, and savings percentage of underutilization was in the range of 82 percent to 99 percent.	Not answered.	The budget should be used as a control tool.
(c)	The amount allocated for 14 expenditure heads such as pre-school uniforms under the Welfare Expenditure Subject, for which no expenditure had been incurred as of 31 December 2024, fee for the control of stray animals and food sample testing fees, under the Health Expenditure Object, and uniforms under the Garbage Management Expenditure Object, was amounted to Rs.8,259,100.	That the uniforms have been provided to pre-school children at an expense of Rs.233,600 from the provisions of the year 2024, and that the payments have been made under the creditors.	The budget should be used as a control tool.