

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Agalawatta Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, Comprehensive Income Statement, Statement of changes in net assets/ equity, 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 provisions in 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 Agalawatta 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

My opinion is qualified 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 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 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

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 Sri Lanka Public Sector Accounting Standard for Local Authorities

	Non-compliance with reference to relevant standard	Comment of the Sabha	Recommendation
(a)	It was observed that the Cash Flow Statement had not been prepared in accordance with paragraphs 3.28 to 3.29 of chapter 3 of the standard due to following facts.		
(i)	Although fixed deposit interest income amounting to Rs. 1,905,719 had not been accounted for, that amount had been deducted from the surplus under operating activities. In addition, fixed deposit interest income of Rs. 3,279,452 received in cash under investing activities had not been shown.	Cash flow statement will be prepared correctly in the year 2025.	Cash flow statement should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities
(ii)	Capital grants amounting to Rs. 5,218,203 received during the year had been shown under operating activities instead of under investing activities.	Cash flow statement will be prepared correctly in the year 2025.	-Do-
(iii)	When calculating the surplus in the Statement of Comprehensive Income, the value of fixed deposits amounting to Rs. 15,000,000 had not been treated as an expense. However, Rs. 15,000,000 had been added as fixed deposits to the surplus in the Cash Flow Statement, the cash flow from operating activities had been overstated.	It will be corrected in the future.	-Do-

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the sabha	Recommendation
(a) Since an amount equivalent to the annual depreciation of Rs. 45,000 for the capital grant of Rs. 450,000 received in 2023 had not been recognized as income during the year under review, the surplus had been understated by that amount.	It will be corrected from the final account of the year 2025.	Accounts should be prepared correctly.
(b) As per the Local Government Department Circular No. GD/2/DC/2020 dated 27 August 2020, capital expenditure grants under Note No. 10 had not been prepared in the proper prescribed format. Instead of classifying the value of capital grants according to each program, the balance of capital grants as at 31 December of the year under review had been shown as Rs. 23,438,484 under general administration.	It will be corrected from the final account of the year 2025.	Should be act accordance with the referred circular.

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comment of the sabha	Recommendation
(a) No action had been taken to correct a discrepancy of Rs. 3,499,997 between the balances of two account subjects shown in the financial statements and the balances shown in the related subsidiary records.	The schedules include information for the year 2023.	Steps should be taken to find out the reasons for the differences and correct them.
(b)(i) Under the Puranaeguma Project in 2010, a disaster management center building was constructed on land owned by the sabha with Korean assistance. However, the sabha did not have a formal agreement with the relevant parties regarding the construction. The sabha had taken over the building in 2010 without any inspection of the standards or quality of construction. According to the asset register, the cost of the building was Rs. 9,000,000 and concrete section of the entrance had collapsed in 2016. The sabha had spent Rs. 627,745 in 2016 to obtain a quality report on the building, which was built without proper standards, and to ensure that it did not collapse again. In 2020, it was decided to demolish the building as it was vulnerable.	The expenses were incurred to maintain the building in its current condition and prevent it from collapsing again.	When external parties carry out construction work on properties of the sabha, confirmation regarding the quality standards of work should be obtained.

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| <p>(ii) Instead of estimating the full cost of demolition, only the value of materials that could be reused from the building was assessed. As a result, the Department of Valuation informed in 2023 that the contractor should be paid Rs. 6,100,000. However, based on the assumption that the contractor would retain the reusable materials from the demolished building, the original valuation was reduced to Rs. 3,000,000, with an additional Rs. 49,250 paid to the Department of Valuation in the year under review. For advertisements related to the demolition in the previous and current year had been spent Rs. 108,893 and Rs. 134,800, respectively. Although this matter had been reported in the previous year's audit report, the building had not been demolished during the year under review.</p> | <p>No bidder had been present.</p> | <p>Appropriate steps should be taken regarding the weaknesses in decision-making and demolishing building.</p> |
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1.7 Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below .

	Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Sabha	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 104	Although a preliminary investigation had been conducted regarding the misplacement of the refrigerator at the Agalawatte Dairy, no steps had been taken to identify those responsible parties and recover the loss.	That further action would be taken after receiving the investigation report.	Action should be taken in accordance with the financial regulations referred.
(b)	Paragraph 3.1 of the Public Administration Circular No.30/2016 of 29 December 2016	Action had not been taken in accordance with the circular regarding 14 vehicles.	The fuel combustion test of all vehicles has been completed by now.	Action should be taken as per the referred circular.
(c)	Paragraph xxi of the Local Government Circular No.	Quarterly reports on decisions taken concerning unauthorized constructions	reports and notifications regarding unauthorized constructions will be	Action should be taken in accordance with the referenced

WP/LGD/01/2012 dated 11 July 2012. were not submitted to the Commissioner of Local Government by the Planning Committee. submitted to the Commissioner of Local Government (Western Province) the circular.

- (d) Paragraph xiii Two technical officers had Allowances have been Action should be
Western Provincial participated in planning paid without exceeding the taken in compliance
Local Government activities with the sabha's approved number of with the referenced
Circular No. Works superintendent without members. circular
WPLGD/01/2013 obtaining the concurrence of
dated 18 June 2013 the Urban Development
Authority.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2024 amounted to Rs. 16,379,902 as compared with the excess of expenditure over revenue amounting to Rs.36,892,848 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, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

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)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
(i) Rates and Taxes	40,010,788	4,289,450	4,594,703	802,105	3, 647,580	3,518,563	2,784,743	1,107,353
(ii) Rent	7,022,000	8,640,422	9,049,122	110,800	6,835,297	6,835,297	6,519,597	315,700
(iii) License Fees	1,292,000	1,353,300	1,353,300	-	1,260,790	1,179,877	1,179,877	-
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	48,324,788	14,283,172	14,997,125	912,905	11,743,667	11,533,737	10,484,217	1,423,053
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2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below.

Audit Observation	Comment of the Sabha	Recommendation
According to the rate tax time analysis, the arrears less than one year Rs. 338,860, the	The action is being taken recover the arrears.	The action should be taken to recover the

arrears between years 01 to 03 is Rs. 256,328
the arrears between years 03 to 05 is Rs.
96,308, between the years 05 to 10 is Rs.
107,117.

arrears expeditiously

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
The sabha had not maintained a stamp duty register that clearly identified the amount claimed and received stamp duty annually from each Land Registrar's Office .	Stamp duty register has been prepared since the year 2025.	Stamp duty register should be maintained.

3.2 Operational Inefficiencies

Audit Observation	Comment of the sabha	Recommendation
(a) The chicken and mutton shop, which had an estimated annual revenue of Rs. 85,000, had not been leased out during the year under review.	no one had god the tender	sabha's property should be used for revenue generation.
(b) In order to mitigate the risk of financial loss to the sabha due to the shopkeepers defaulting on rent payments, the lease agreement did not specify the security deposit to be provided by the tenant, and the shop was leased out without obtaining any security deposit.	Steps will be taken to obtain security deposits in the future.	Steps should be taken to retain security deposits when leasing out shop premises.

3.3 Idle or under-utilized Property, plant and equipment

Audit Observation	Comment of the Sabha	Recommendation
The Sabha owned tipper and backhoe loader remained idle since year 2020.	Action had been got to transferred to another Sabha.	assets should be fully utilized.

3.4 Assets Management

	Audit Observation	Comment of the Sabha	Recommendation
(a)	The ownership of 21 cemeteries under the administration of Agalawatta Pradeshiya Sabha was not transferred to the Sabha and the boundaries of none of the cemeteries had been prepared.	steps were being taken to take over the cemeteries and that safety procedures would be followed after the transfer.	The relevant property should be transferred to the Council promptly and the boundaries should be prepared
(b)	It was revealed in 2024 that an external party had been operating pre-school in the Kevitiyagala Community Hall for about 25 years without the permission of the sabha and legal action had not been taken against it.	It had been notified to be handed over to the sabha.	The property should be protected and utilized.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
During the year under review, the sabha had been issued trade licenses to three institutions that had not obtained environmental licenses to carry on business activities .	Environmental licenses have been issued in 2025.	Trade licenses should not be granted to institutions that had not obtained environmental licenses.