

1. Financial Statements

1.1 Disclaimer Opinion

The audit of the financial statements of the Mathugama 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.

I do not express an opinion on the financial statements of the Mathugama Pradeshiya Sabha because of the significance of the matters described in paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer Opinion

I expressed Disclaimer of opinion regarding financial statements on the matters described in paragraph 1.6 of this report .

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, except for the observations in paragraph 1.6.2 (a), (b) and (c) of this report are included in the submitted financial statements.

1.6 Audit observations regarding 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)	According to paragraph 3.7 of Chapter 3 of the standard, the budgeted information in budget documents had not been presented in the financial statements.	Corrections will be made in the preparation of the financial statements in the year 2025.	The financial statements should be prepared in accordance with the Public Sector Accounting Standard for Local Authorities.
(b)	According to paragraph 3.6 of Chapter 3 of the standard, the comparative information should be disclosed in relation to the previous comparable period for all the values presented in the financial statements, action had not been taken in preparing the cash flow statement.	-Do-	-Do-
(c)	According to paragraph 3.27 to 3.32 of Chapter 3 of the standard, The cash flow statement had not been prepared for the year under review.	Corrections will be made in the preparation of the cash flow statements in the year 2025.	The cash flow should be prepared in accordance with the Public Sector Accounting Standard for Local Authorities.
(d)	According to paragraph 6.13 of Chapter 6 of the standard, although an asset should be depreciated from the time it is available for use fixed assets had not been depreciated for the year under review as well as in previous years.	Corrections will be made in the preparation of the financial statements in the year 2025.	The financial statements should be prepared in accordance with the Public Sector Accounting Standard for Local Authorities.
(e)	According to paragraph 9.6 of Chapter 9 of the standard, Although, an amount equivalent to the depreciation charged on property, plant and equipment acquired through government grants should be recognized as income since 2020, the Sabha had not made the said adjustments and therefore the income for the year had not been stated correctly.	-Do-	-Do-

1.6.2 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	The error of recording Rs. 100,111,630 received as salary reimbursement in the previous year as Rs. 99,387,768 had not been corrected during the year under review.	Corrections will be made in the preparation of the financial statements in the year 2025.	Accounts should be prepared accurately.

(b)	The bank balance of Rs. 2,461,134 in the People's Bank account had been incorrectly shown as Rs. 2,695,092 in the previous year had not been corrected during the year under review.	-Do-	-Do-
(c)	The error of recording 20 bridge flags worth Rs. 110,000 purchased in the year 2019 under office equipment had not been corrected during the year under review.	-Do-	-Do-
(d)	The value of the compactor provided to the sabha by the Local Government Department in 2018 for Rs. 12,000,000 on the basis of offset against stamp duty income was accounted under non-current assets , but the outstanding amount of Rs. 643,875 was shown under non-current liabilities as well as non-current investments, which resulted in an overstatement of non-current assets in the financial statements by Rs. 643,875.	Corrections will be made in the preparation of the financial statements in the year 2025.	-Do-
(e)	Due to the adjustment to the ledgers by debiting miscellaneous creditors Rs. 573,780 instead of debiting industrial creditors Rs. 2,736, the current liabilities and accumulated fund in the financial statements were understated and overstated by Rs. 571,044 respectively.	There was a printing error in the journal entry.	Journal entries should be prepared correctly
(f)	The trade license fees receivable amounting to Rs. 413,750 had not been adjusted to the ledger accounts.	Corrections will be made in the preparation of the financial statements in the year 2025.	Journal entries should be correctly posted to ledger accounts.
(g)	The surplus of the year under review had been overstated by Rs. 83,259, due to fixed deposit interest income amounting to Rs. 1,409,871 for the year under review had been shown as Rs. 1,493,130 in the financial statements.	-Do-	Accounts should be prepared accurately.
(h)	As at 31 December 2024, the cash book balance for the bank current account was Rs. 4,779,212, but when preparing the bank reconciliation statement for that month, it was recorded as Rs. 4,545,255 according to the cash book.	-Do-	-Do-
(i)	The revaluation reserve amounting to Rs. 19,774,513 at the end of the year under review had not been disclosed in the Statement of	Corrections will be made in the preparation of the financial statements in the	The accounts should be prepared correctly.

Changes in Equity.

year 2025.

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| (j) | It was disclosed under the accounting policy notes that utensils and equipment are depreciated at 20 percent, these assets had been accounted under office equipment. | -Do- | Disclosures should be presented accurately in the financial statements. |
| (k) | Although the net assets as per the statement of assets and liabilities, the net assets as at 31 December of the year under review amounted to Rs. 1,464,418,928. However, in the statement of changes in equity, it had been shown as Rs. 1,342,831,027, resulting in an unreconciled balance of Rs. 121,587,901. | Corrections will be made in the preparation of the financial statements in the year 2025. | The accounts should be prepared correctly. |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation

Comment of the Sabha

Recommendation

There was a difference of Rs. 31,642,078 between the balances of 15 accounting items in the financial statements and the balances shown in the related schedules.

Answer had not been given.

The action should be taken to correct by reconciling the differences.

1.6.4 Lack of Documentary Evidence for Aud

Audit Observation

Comment of the Sabha

Recommendation

Due to the non-submission of schedules relating to the Sums totaling Rs. 144,114,153 relevant to 02 items shown in the financial statements could not be satisfactorily verified in the audit.

Answer had not been given.

Schedules must be maintained.

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 | Non – Compliance | Comment of the Sabha | Recommendation |
|-----|--|--|---|---|
| (a) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.396(d) | 10 cheques totalling Rs. 295,550 with a maturity of more than 06 months had not been dealt with. | Necessary action would be taken. | Action should be taken as per the Financial Regulation. |
| (b) | Chapter 2.3 of the Non-Financial Assets Valuation Guidelines dated 31 | 55 buildings owned by the sabha had not been valued after the year 2018 and 249 | Only buildings with market values had been valued after the | Action should be taken as per the Guidelines. |

December 2018

lands had been stated in the financial statements without valuation. year 2018 due to high costs.

- (C) Section 10 (a) (c) of Chapter viii of the Establishments Code
- A total of Rs. 80,514 had been paid to the Secretary of the sabha during the year under review for working 30 days of leave without formal approval and total of Rs. 20,778 was paid for 08 days without covering 08 hours, a total of Rs. 7,792 was paid for one day of absence and 02 days not worked.
- Due to fingerprint machine is not working, attendance is confirmed from the attendance register.
- Action should be taken in accordance with the referred chapter of the Establishments Code.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 36,987,159 as compare with the excess of revenue over expenditure amounting to Rs. 21,750,676 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 Secretary, the estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

		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)
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(i)	Rates and Taxes	20,157,000	27,609,007	3,247,288	1,174,054	12,701,633	12,116,195	9,314,302	7,395,121
(ii)	Rent	11,082,000	12,856,705	13,377,087	1,837,418	6,975,000	7,607,808	5,916,308	2,353,800
(iii)	License Fees	452,000	452,000	537,000	-	2,588,000	3,175,990	3,055,690	264,218
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		31,691,000	40,917,712	17,161,375	3,011,472	22,264,633	22,899,993	18,286,300	10,013,139
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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
(a) Rates			
(i)	According to the arrears income statement, the rate arrears at the beginning of the year under review were Rs. 7,394,988, and Rs. 4,501,220 or 61 percent had not been collected during the year.	Outstanding amount will be recovered.	Actions should be taken to recover arrears of rates promptly.
(ii)	The annual billing was Rs. 24,417,076 of and Rs. 7,029,342 or 29 percent had not been collected during the year.	-Do-	-Do-
(b) Business Tax			
	According to the income statement, the business tax arrears at the beginning of the year under review were Rs. 265,200, and Rs. 112,800 or 43 percent had not been collected during the year.	-Do -	-Do-
(c) Rent			
	The rent arrears at the beginning of the year under review were Rs. 2,357,800 and Rs. 592,475 or 25 percent of this had not been recovered during the year	Outstanding amount will be recovered.	Actions should be taken to recover arrears of rates promptly.
(d) License fees			
(i)	Action had not been taken in accordance with Section 167 of the Pradeshiya Sabha Act No. 15 of 1987 in respect of 04 places that carried out business activities without obtaining trade licenses for the year under review.	Answer had not been given.	Action should be taken in accordance with the Pradeshiya Sabha Act.
(ii)	The sabha had not taken any action against a business place that the Consumer Affairs Authority had filed a case for	Answer had not been given.	Action should be taken in accordance with the Pradeshiya

manufacturing chili powder using harmful raw materials without obtaining trade licenses and environmental licenses from the sabha.

Sabha Act.

(e) **Other income**

The court fines and stamp duty due from Copying activities are Action should be the Chief Secretary of the Provincial being carried out by taken to recover the Council and other authorities as at 31 visiting land registrar revenue due. December 2024 were Rs. 25,015,210 and offices and courts. Rs. 158,382,797 respectively.

3. Operational Review

3.1 Performance

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comment of the Sabha	Recommendation
(a) The sabha had been given trade license fees from 09 businesses entities without required environmental permits and failed to prepare by-laws under Section 122 of the Pradeshiya Sabha Act to specify requirements for issuing such licenses.	Answer had not been given.	By-laws should be prepared for the necessary functions
(b) The sabha had prepared the corporate plan only up to the year 2022.	The corporate plan has been prepared up to 2026.	The corporate plan should be prepared for the next 05 years.

3.2 Uneconomic Transactions

Audit Observation	Comment of the Sabha	Recommendation
(a) (i) The Matugama Pradeshiya Sabha had purchased computer software systems worth Rs. 1,565,000 and Rs. 1,855,000 respectively from a private institution in	Request had been made for training to implement the file management system, data entry for the human	The purchased computer systems should be utilized efficiently and

2015 and 2018 in two phases. The sabha resource management effectively. uses Pay Roll computer software and system is in progress, and KOHA software instead of the salary although requests were made processing system worth Rs. 95,000 and to activate the online the library management system worth Rs. reservation system, the 195,000 purchased under the first phase, service has not yet been and the file management system worth provided. Rs. 120,000 had not been implemented. The human resource management system and the online reservation system, which were purchased a second time at a cost of Rs. 695,000 and Rs. 585,000, had also not been implemented by the end of the year under review.

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| (ii) | Action had not been taken in accordance with Financial Regulation 156 as at 31 December 2024 regarding purchase of the above 05 systems worth Rs. 1,690,000 without identifying the actual requirement and contrary to the agreement, 25% Rs. 422,500 which was to be paid after training had been paid without conducting the training. | Answer had not been given. | Action should be taken in accordance with the Financial Regulation regarding the action taken to cause loss to the sabha. |
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3.3 Management Inefficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)(i)	Matugama Watta land area had been given to the Foreign Employment Bureau based on a Cabinet decision had not been correctly identified, and the Sabha's land records had not been updated accordingly.	That land has been assigned by the Divisional Secretariat.	The land area should be accurately identified and the land register updated accordingly.

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| <p>(ii) Also, the council had not taken any action against the construction and maintenance of a veterinary office and official residence in the above premises without written permission and without paying any rent.</p> | <p>An investigation will be carried out in this regard and a settlement will be made.</p> | <p>Sabha property should not be given to external parties without a formal transfer.</p> |
| <p>(b) Without following a proper procurement process an external party constructed 19 shop rooms on sabha premises in year 2022. The sabha had not taken legal action against the party for operating the shops without paying rent, and no action had been taken in accordance with Section 156 of the Financial Regulations regarding the party that caused a loss to the sabha.</p> | <p>Letters had been sent to the Local Government Commissioner to seek advice regarding 19 stalls.</p> | <p>Action should be taken as per the referred financial regulation.</p> |

3.4 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) 09 stalls of the public market had not been used for business purposes but are being used as warehouses and 02 stalls that were sealed had not been tendered during the year under review.	09 stalls are being used as warehouses and 02 stalls have been sealed due to non-payment of rent arrears.	The shop rooms should be utilized for their intended purpose.
(b) Although the sabha should renew or re-tender the stall rental agreements before the expiry of the agreement period, 41 stalls of the Mathugama Public Market, 04 mid-court stalls and 06 fish stalls have been operating without renewal of agreements for over 6 years.	Arrangements have been made to obtain assessments for the coming years.	Rent should be charged based on the assessed values.
(c) The shop rent of Rs. 62,050 in the Welipenna Merrill Munasinghe Shopping	Case is pending in the District Court.	Steps should be taken to collect the arrears of

	Complex, which has been in arrears for more than 05 years, had not been collected during the year under review.	shop rent
(d)	although the shops had been valued by the Department of Valuation as at 06 June 2022, sabha had not taken action to recover rent for the year under review based on the assessed values.	That steps have been taken to obtain assessments for future years. Rent should be collected based on the assessed values.
(e)	89 shops and 11 fish shops owned by the sabha, and 34 shops in the Welipenna sub-office, had been allowed to conduct business activities without entering into an agreement with the sabha, and the sabha had not taken legal action against them.	Final notices have been issued for contracting and if not, the property will be taken over. A contract must be entered into when renting out shops owned by the sabha.

3.5 Disputed Transactions

	Audit Observation	Comment of the Sabha	Recommendation
(a)	sum of Rs. 39,000 had been paid from the sabha funds as legal fees up to the year under review for a court case filed by an external party regarding the use of council employees for personal requirements by a former Chairman of the Matugama Pradeshiya Sabha. However, the sabha had not taken action to recover the legal fees paid for cases filed as a result of irregularities committed by the council officers from the parties responsible.	The payments had been made on behalf of the sabha's property and employees.	Legal fees should be recovered from the relevant officers.
(b)	In October 2022, the council spent Rs. 470,250 to repair its JCB	Action is pending until the completion of the investigation.	The provisions of the Procurement Guidelines

machine at a garage owned by a council member's brother, without following the tender procedure and without obtaining a performance guarantee. Although the Depot Engineer certified the repair as satisfactory, the machine broke down again in 2023 and remained idle until the end of the year under review and the financial loss incurred has not been recovered.

should be followed.

3.6 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) It had not been taken legal action at the end of the year under review regarding the occupied by outside parties of 12.72 roods 02 perches of the Batamulla Kanda land book value of Rs. 12,500,000, comprising 12 acres 02 roods 36 perches.	Steps will be taken to inform those parties to vacate.	The property owned by the Council should be protected.
(b) A group of non-employees of the sabha had constructed 11 unauthorized houses on the 7 acres 01 roods 11.4 perches of the Matugama Watta land owned by the sabha with a book value, Rs. 20,000,000, and the sabha had collected assessment tax from the homeowners without taking legal action for that.	.-Do-	-Do-

(c)	The steering machine and water transport tractor that were donated to the Council in 2015 from the Department of Local Government had not been registered under the name of the sabha at the end of the year under review.	These assets had been transferred through an agreement by the Divisional Secretariat and were donations received under a project.	The assets utilized by the Council should be transferred to the sabha.
(d)	The legal ownership of 43 cemeteries out of the 72 cemeteries had not been transferred to the sabha.	Arrangements are being made by the Divisional Secretary to transfer ownership.	The legal ownership of the cemeteries should be transferred to the sabha.
(e)	The ownership of 42 lands included in the land register had not been transferred to the sabha.	Arrangements are being made to transfer ownership.	The ownership of the lands should be transferred to the sabha.
(f)	The ownership of the premises of the Thambaretiya Community Hall and the rented houses used by the sabha had not been transferred to the sabha from the Mathugama Divisional Secretariat during the year under review.	Arrangements are being made to transfer ownership.	The properties utilized by the Council should be transferred to the sabha.
(g)	The shop rooms in the two-storey building of the Galmatta General Store, which was constructed in 2010 at a cost of Rs. 5,100,000, remained idle without being rented out during the year under review.	Shop room was also tendered in 2024. however, no bidder submitted a proposal, and it remains unused.	The sabha should take action to generate income from its assets

3.7 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
the outstanding loan balances of Rs.243,744 and Rs.147,570 respectively, due from three officers who passed away in 2017, 2018, and 2023 and two officers who left service in 2017 and 2018 had not been collected during the year under review.	Arrangements are being taken to recover the outstanding loan balances.	Action should be taken to recover the outstanding loan balances.

4. Accounting and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Sabha	Recommendation
(a) Some programs included in the sabhal's annual action plan had not been specified the expected budget allocations or the timeframes for completion. Additionally, the physical and financial progress of activities had not been measured on time and therefore it had not been possible to use the action plan as a control tool.	Answer had not been given.	The action plan should be prepared properly and accurately.
(b) 17 tasks totalling Rs. 4,300,000 had not been completed out of the provisions allocated for the tasks expected to be completed during the year under review according to the annual action plan,	Answer had not been given	Action should be taken to implement the activities included in the action plan.

4.2 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
Out of the total allocations of Rs. 18,959,000 for 15 expenditure items in 2024, ranging from Rs. 37,000 to Rs. 4,000,000, between 79 percent to 99 percent of the allocated funds remained unspent.	Vouchers were not submitted.	The budget should be prepared based on accurate estimates.

4.3 Sustainable Development Goals

Audit Observation	Comment of the Sabha	Recommendation
The Sustainable Development Plan prepared for the year 2024 had not been include the financial and physical targets to be achieved correctly and its progress was not measured quarterly.	It will be prepared correctly in the year 2025.	The Sustainable Development Plan should be prepared correctly.