

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Palindanuwara 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 Palindanuwara 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 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 3.28 of Chapter 3 of the standard, when calculating cash flows from operating activities, instead of using the deficit of Rs. 10,399,011 for the year, a different amount of Rs. 3,057,934 had been used. Additionally, when reconciling changes in working capital, inventory increases of Rs. 203,324 had been added instead of being deducted, and annual interest income of Rs. 439,740, which was the basis for calculating the deficit, had not been adjusted.	That correction will be made in preparing the financial statements in year 2025.	The cash flow statement should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities.
(b) In accordance with paragraph 3.29 of Chapter 3 of the standard, under investing activities, interest income amounted Rs. 10,967,892 had been adjusted instead of Rs. 702,828, resulting in an overstatement of Rs. 10,265,064.	-Do-	-Do-
(c) In accordance with paragraph 3.30 of Chapter 3 of the Standard, the value of capital grants amounting to Rs. 12,922,977 received in cash during the year under financing activities had been adjusted as Rs. 13,120,057, thus showing an overstatement of Rs. 197,080.	The cash flow statement will be prepared correctly in the year 2025.	The cash flow statement should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The balance of the capital grants account not recognized as revenue as at 31 December 2024 is Rs. 181,988,672, but was stated as Rs.193,407,901 in the financial statements, resulting in an overstatement of non-current liabilities by Rs. 11,419,229.	Action will be taken to correct the financial statements for 2025.	The accounts should be prepared correctly.
(b) The value of capital grants to be recognized as income for the year under review should have been Rs. 12,527,566. However, it had been shown as Rs. 1,859,818 in the	-Do-	Capital grants should be properly adjusted to the accounts.

Statement of Comprehensive Income, understating the year's income by Rs. 10,667,748.

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| (c) | The buildings account had been debited to Rs. 13,908,243 instead of debit to Rs. 20,883,350, resulting building value understated by Rs. 6,975,107. | -Do- | Journal entries should be posted to the ledger accounts accurately. |
| (d) | Depreciation on motor vehicles, furniture, fittings, and roads, culverts, and bridges for the year under review had been understated by Rs. 2,156,456 in the financial statements. | -Do- | The accounts should be prepared correctly. |
| (e) | Donations of medicines amounting to Rs. 953,307 had not been recorded in the donation account and the received discounts account, amounting to Rs. 500,000 and Rs. 453,307 respectively, resulting income for the year understated by the same amounts. | -Do- | Journal entries should be posted to the ledger accounts accurately. |
| (f) | Ayurvedic stock purchased in January 2024 amounted Rs. 700,000 had been debited to the Ayurvedic Stores Advance Account at the end of the year and credited to a Medical Supplies Account which was not included in the general ledger. | -Do- | The accounts should be prepared correctly. |
| (g) | Although the value of capital grants receivable was stated as Rs.49,123,916, the value of capital grants receivable as per the Industrial Schedule was Rs.50,012,280, and it was credit to Capital Expenditure Grants Account as Rs.50,248,304 and debit to Debtors Account as Rs.49,123,916, in an overstatement of capital grants by Rs. 236,024 and an understatement Debtors by Rs.888,364. | Action will be taken to correct the financial statements for 2025. | Journal entries should be posted to the ledger accounts accurately. |
| (h) | Fixed deposit interest of Rs. 389,697 and Rs. 571,430 had been credited to the interest income as Rs. 439,740, resulting year's income had been understated by Rs. 521,387. | -Do- | -Do- |
| (i) | Although provisions for creditors amounting to Rs. 518,910 had been made as at 31 December 2024, they had not been posted to the relevant expense ledger accounts, resulting expenses for the year being understated by the same amount. | -Do- | -Do- |

(j)	An amount of Rs. 481,115 due for election allowances had not been debited to the debtors account and credited to a revenue ledger account, the year's income understating by that amount.	The ledger accounts will be adjusted in the future.	-Do-
(k)	The discount given on assessment of Rs. 144,053 had not been adjusted to the discount account in the general ledger, resulting in the expenditure for the year under review being understated by that amount.	-Do-	-Do-
(l)	The total capital grant value received during the year under review was Rs. 63,368,361, and only Rs. 12,922,977 had been adjusted as the capital grant value received in cash in the statement of changes in equity and the comprehensive income statement.	-Do-	-Do-
(m)	The opening balance of the accumulated fund in the Statement of Changes in Equity had been understated by Rs. 9,054,985 due to prior year errors. However, no such adjustment had been made in the accumulated fund account, resulting in a balance of Rs. 241,980,015 as at 31 December of the year under review had been shown as Rs. 218,295,047 in the Statement of Changes in Equity	Efforts will be made to prevent such problems from occurring in the future.	-Do-

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comment of the sabha	Recommendation
The difference of Rs. 75,111,049 between the balances of the financial statements of 04 accounting subjects and the balances shown in the related ledger accounts/net assets/statement of changes in stock/schedules/notes had not been investigated and corrected.	Actions to be taken to correct in the year 2025.	The reasons for the differences should be investigated and corrected.

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
Paragraph 3.1 of the Public Administration Circular No.30/2016 of 29 December 2016.	Fuel combustion test for 07 vehicles had not been carried out as per the circular.	To be completed in the year 2025.	Action should be taken as per the referred circular.

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. 10,399,010 as compared with the excess of revenue over expenditure amounting to Rs. 11,327,953 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

		2024				2023			
	Source of Revenue	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
		(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
(i)	Rates and Taxes	4,310,712	5,639,698	5,947,387	606,437	1,177,000	1,044,980	846,638	378,980
(ii)	Rent	12,011,300	6,398,083	6,425,719	665,130	5,630,300	7,202,000	6,811,312	850,224
(iii)	License Fees	275,000	283,000	367,000	-	1,680,000	1,410,200	1,410,200	281,050
		16,597,012	12,320,781	12,740,106	1,271,567	8,487,300	9,657,180	9,068,150	1,510,254

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)	Rent		
(i)	The rent arrears of the Makeli Ella car park amounting to Rs. 157,458 due since	It would be collected by a court order.	Action should be taken to collect the arrears of

the year 2023, had not been collected during the year under review.

revenue expeditiously.

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| (ii) | The a of weekly arrears of market fees amounting to Rs. 382,622 due since the years 2013 and 2022, had not been collected during the year under review. | Rs. 95,753 should be collected from a former secretary and the remaining Rs. 286,867 would be collected by a court order. | -Do- |
| (iii) | The arrears of rent of Rs. 105,050 from the year 2022 had not been collected. | The lessee could not be found to handing over the summons for the case. | -Do- |

(b) Other income

Court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities by 31December 2024 were Rs. 2,500,000 and stamp duty was Rs. 10,000,000.	Steps would be taken to collect the income by preparing schedules.	-Do-
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3. Operational Review

3.1 Identified Loss

Audit Observation	Comment of the Sabha	Recommendation
As per paragraph 3.5.2 of the Auditor General's report dated 31 December 2019, no steps had been taken during the year under review to identify those responsible for the shortage of 21 GI pipes worth Rs. 23,250 and 49 Pakistani pipes worth Rs. 85,750 and recover the losses.	A re-investigation board has been appointed. Preliminary.	investigations should be conducted expeditiously and the losses should be recovered.

3.2 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) In terms of paragraph 1.1.1 of the Western Provincial Administrative Secretary's Circular No. 01/2016 dated 19 February 2016, all vehicles under the institution's custody should have been transferred to the name of the institution. However,	Government Agent's Office will take action to take over.	Action should be taken as per the Western Local Government Secretary's Circular.

as at 31 December 2024, ownership of the water bowser and a tractor had not been transferred to the sabha.

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| (b) | According to Section 10 of the Public Cemeteries and Private Cemeteries Ordinance No. 57 of 1946, security fences should be prepared for the protection of cemeteries. However, no fencing or boundary had been erected in any of the cemeteries owned by the sabha and the ownership of 30 cemeteries had not been transferred to the sabha. | It has been informed to the Local Government Department to allocate the necessary funds for the survey. | Action should be taken in accordance with the Public Cemeteries and Private Cemeteries Ordinance. |
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3.3 Procurement Management

Audit Observation	Comment of the Sabha	Recommendation
According to guideline 8.11.6 (a) of the National Procurement Guidelines, tenderers who fail to act in accordance with the contract after their tender is accepted should be blacklisted, but such action had not been taken in the case of the three tenderers who defaulted on the agreement when tendering the sabha's fish stalls for the year 2024.	It has been recorded in the blacklist so far.	Tenderers who do not act in accordance with the referred guideline should be blacklisted.

3.4 Deficiencies in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) Although Rs. 35,527 per unit was paid for laying 15.61 cubic meters of concrete with a thickness of 03 inches in a hall measuring 83 feet 06 inches and a width of 26 feet 10 inches, Rs. 554,576 was paid, but since the thickness of the concrete during physical inspection was from 2 inches to 2 ½ inches, Rs. 35,527 per unit for 2.61 cubic meters, a total of Rs. 92,725 was paid in excess.	Action will be taken to recover from the contractor.	It should be monitored whether the contract is being carried out to the proper standard and action should be taken to recover the excess payments.
(b) Although a total of Rs. 5,996,640 was spent on laying pipes and constructing tanks for the	Water will be distributed after testing water	The drinking water needs of the people should be

Uduwankanda Kapugedara water project, samples. which was constructed at a cost of Rs. 2,996,068 in the year 2023, the drinking water needs of the people had not been met even by the end of the year under review.

met after completing the project.

3.5 Human Resource Management

	Audit Observation	Comment of the Sabha	Recommendation
(a)	An employee who had left service and rejoined in 2023 was transferred to the Beruwala Pradeshiya Sabha on 21 February 2024. However, no preliminary investigation had been conducted regarding his unfitness for public service during his tenure at the sabha.	He was reinstated with the approval of the Governor.	Investigations should be conducted regarding his unfitness for public service during his service period.
(b)	(b) The Health Worker appointed by the Ministry of Local Government on 01 June 2023 for the vacant Health Worker position in the sabha was deployed to the Office of the Medical Officer of Health, Palindanuwara from 07 July 2023 and was paid Rs. 579,600 as salary for the year under review by the sabha. .	He was placed as per the Governor's letter.	The officer should be assigned to the duties of the sabha.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Sabha	Recommendation
The council had implemented 28 projects totalling Rs. 63,235,230 which were not included in the action plan prepared for the year under review.	It is stated that from the year 2025, the action plan will be revised quarterly and the relevant projects will be included.	The projects expected to be implemented during the year should be included in the action plan.

4.2 Internal Audit

Audit Observation	Comment of the Sabha	Recommendation
Although Section 4 of the National Audit Act No. 19 of 2018 and Financial Regulation 133(1) state that internal audit should be implemented as a process that supports the improvement of the operational process of the institution and its performance, the Council's internal audit had not conducted an adequate audit related to subjects such as land subdivision certifications, assessments and collection of shop rents, procurement.	It will be corrected in the future.	An adequate internal audit should be conducted.

4.3 Sustainable Development Goals

Audit Observation	Comment of the Sabha	Recommendation
(a) To achieve the first Sustainable Development Goal of ending all forms of poverty, a free self-employment training program was conducted with the participation of 21 individuals. However, only 7 participants were actively engaged in self-employment activities, indicating the need for a more structured approach to achieve the intended goal.	That only those who are directly involved in self-employment will participate in future programs.	A formal program should be prepared to achieve the desired goals.
(b) Progress on activities undertaken to achieve the second Sustainable Development Goal ensuring food security for the population by 2030 had not been measured by the end of the year under review.	That programs have been implemented at the pre-school level.	A formal program should be prepared to achieve the desired goals.
(c) To meet the sixth Sustainable Development Goal on clean water and sanitation, Rs. 26,437 was paid to the	Accepted.	The relevant work should be carried out correctly to achieve

Water Supply Board on 28 February 2024 for water sample testing, including transport costs, from the Latpandaura, Kamburawala, and Katupotha water projects. However, a full examination was not conducted, and only bacterial and E-Coli tests were performed.

the objectives.