

Panadura Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Panadura 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, 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and Sub-section 10 (1) of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report

I do not express an opinion on the financial statements of the Panadura Pradeshiya Sabha. Because of the significance of the matters discussed in the Section 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 of Opinion

I express a disclaimed opinion on the financial statements based 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 Responsibility of the Auditor for the audit of Financial Statements

My responsibility is to conduct an audit of the Federation's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

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 Pradeshiya Sabha 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 Sabha	Recommendation
(i)	In accordance with paragraph 3.7 of Chapter 3 of the Standard, the budgeted information in the budget documents was not presented in the financial statements.	Not answered.	Financial statements should be prepared in accordance with the standard.
(ii)	Although land and buildings should be accounted for separately in accordance with paragraph 6.3 of Chapter 6 of the standard, the value of Rs.266,798,885 at the end of the year under review had not been shown separately as land and buildings.	That it can be presented separately in the final accounts for the year 2025.	Financial statements should be prepared in accordance with the standard.
(iii)	Although, in accordance with paragraph 6.15 of Chapter 6 of the Standard, a depreciation method should be selected and depreciated that reflects the expected pattern of consumption of the asset's future economic benefits, property, plant and equipment other than motor vehicles had not been depreciated in the year under review.	Depreciation will be carried out in accordance with the depreciation policy from 2025.	Financial statements should be prepared in accordance with the standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Note 10 to the financial statements, which should include details such as the capital balance not recognized for the surplus or deficit up to 2023 from the capital grants received from 2020 to 2023, the value of capital grants received in 2024, the value of capital grants recognized for surplus or deficit in the year under review, and the value of capital grants not recognized for surplus or deficit as of the end of the year under review, had not been prepared, and as a result, the surplus and other comprehensive income of the year under review had not been accurately represented.	This report is scheduled to be prepared and adjusted in 2025.	Notes to financial statements should be presented accurately.
(b) Although the value, from the capital expenditure grants not yet recognized in the surplus or deficit as at the beginning of the year under review, should have been recognized in Note 5 of the financial statements as income for the current year, the value of Rs.13,190,177 so recognized was incorrect, and the capital expenditure grants received during the current year were also not adjusted/reconciled under other comprehensive income.	That the adjustment will be made to the final accounts for the year 2025.	Should be accounted for correctly.
(c) When the stamp duty of Rs. 81,000,000 relating to the year 2021 had been corrected in the year under review, it was stated as Rs. 80,000,000, understating by Rs. 1,000,000 and had not been corrected.	That will be corrected by the final account of 2025.	Should be accounted for correctly.
(d) Although the balance of butcher shop rent receivable as at 31 December 2024 is shown in the Schedule as Rs.2,286,896, that item was omitted when preparing the statement of assets and liabilities as at 31 December 2024.	Will be accounted for in the final accounts of the year 2025,	Should be accounted for correctly.

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| (e) | The Director of the Local Loan Development Fund has informed by letter No. LLDF/PS0075/00012/2020/ 00007 dated 15 July 2024, that an amount of Rs. 2,855,300, as the third loan instalment for the construction of the Keselwatta New Public Market from the Local Loan and Development Fund, was deposited in an account at the People's Bank on 20 June 2024, but this was not recorded in a receipt and consequently was not accounted for. | Will be accounted for in the final accounts of the year 2025, | Should be accounted for correctly. |
| (f) | Although all non-current assets should be disclosed under the property, plant and equipment note to the financial statements, buildings, roads, culverts, bridges, office equipment, tanks and machinery were not so disclosed. | Will be corrected in the final accounts of the year 2025. | Action should be taken as per the circular. |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
A difference of Rs. 758,599,799 was observed when comparing the balances of 11 accounting objects presented in the financial statements with their corresponding schedules.	That the final accounts for 2025 will be compared with the schedules and corrected before being submitted.	The reasons for the difference should be investigated and corrected.

1.6.4 Lack of Written Evidences for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to the failure to submit the necessary information for verification, 11 accounting objects with a total value of Rs.235,262,582 could not be satisfactorily verified during the audit.	That the schedules will be correctly submitted when presenting the final accounts for the year 2025.	Written evidence should be submitted confirming account balances.

1.7 Non-compliance

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

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions are shown below.

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Sabha	Recommendation
(a)	Pradeshiya Sabha Act No. 15 of 1987			
(i)	Section 149	Although a sum of up to one percent of the total annual revenue of any hotel, restaurant, or lodging must be charged for the purpose of the Tourism Development Act, no action had been taken to collect revenue from a tourist hotel from the year 2018 up to the year under review.	A case has been filed in the Panadura District Court under case number 2019/66829 to recover the money and the case is currently under investigation.	Actions should be taken in accordance with the Pradeshiya Sabha Act.
(ii)	Section 160	Property seizures had not been carried out as a final step in the collection of arrears of rates and taxes.	Action has been taken to freeze properties on 12 occasions to recover arrears of rates and taxes.	Actions should be taken in accordance with the Pradeshiya Sabha Act.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.284,988,769 compared to the excess of income over recurrent expenditure amounted to Rs.76,769,142 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 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	Estimate of Revenue	2024			Arrears as at 31 December	2023		
			Revenue billed	Revenue Collected			Revenue billed	Revenue Collected	Arrears as at 31 December
		Rs. '000	Rs. '000	Rs. '000	Rs. '000		Rs. '000	Rs. '000	Rs. '000
i	Rates and Taxes	30,000	28,803	116,136	12,670	29,182	29,269	31,053	38,577
ii	Rent	6,800	3,846	3,702	143	413	2,238	4,376	2,300
iii	License Fee	480	511	511	-	634	488	519	45
iv	Other Revenue	12,003	12,044	9,791	2,253	13,270	10,584	10,573	55
Total		49,283	45,204	30,140	15,066	43,499	42,579	46,521	40,977

2.2.2 Performance in Collecting Revenue

The following observations are made regarding the revenue collection performance in collecting revenue of the Sabha.

	Audit Observation	Comments of the Sabha	Recommendation
(a)	According to the progress report, the total outstanding rates and taxes revenue as at 01 January 2024 amounted to Rs.38,576,875, and out of that a sum of Rs.21,331,953 or 55 percent had not been collected as at 31 December 2024.	So far, Rs. 4,400,000 has been collected, which is 20.62 percent.	Arrears of revenue should be collected promptly.
(b)	According to the progress report, the annual billing for the year under review was Rs.28,805,578, of which Rs.12,669,764 or 44 percent had not been collected during the year under review, and the outstanding balance due from 13 assessment units exceeding Rs.50,000 was Rs.1,782,813.	It is reported that 31.57 percent of the outstanding amount has been collected so far, and that Rs.1,366,961 has been collected from 8 assessment units exceeding Rs. 50,000.	Arrears of revenue should be collected promptly.
(c)	Although the billed revenue for the year 2024 from properties leased annually through tender was Rs.9,800,650, the council had failed to recover Rs.2,253,473 or 23 percent of it during the year.	Legal action is being taken to recovery.	Arrears of revenue should be collected promptly.

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| (d) | No amount was recovered during the year under review from the accumulated arrears of Rs.33,423 as on 01 January 2024 and the total arrears as on 31 December 2024 due from 02 properties were Rs.2,286,896.. | It is stated that measures will be taken to recover the amount in 2025, and that legal action will be taken to recover the remaining amount of Rs.2,253,473. | Arrears of revenue should be collected promptly. |
| (e) | The rental income from the market places that was due at the beginning of the year under review was Rs.2,299,534, of which Rs.1,817,300 or 79 percent had not been collected during the year under review. | That an amount of Rs.1,383,900 has been submitted for the approval of the Hon. Governor for write-off, and that there is a situation where an outstanding amount of Rs. 401,850 related to the stalls in the Keselwatta Public Market is also unrecoverable. | Arrears of revenue should be collected promptly. |
| (f) | According to the schedule provided for shop rentals, the sum of the opening outstanding balance and the value billed during the year should have been the shop rental income to be collected during the year. However, since a higher value was recorded as the income collected during the year than this sum, the accuracy of that schedule was questionable to the audit. | That the unrecorded shop rent of Rs.110,800 will be accounted for | Schedules should be maintained accurately and reconciliation with the ledger account should be supervised. |
| (g) | According to the financial statements for the year 2023, the amount receivable for court fines was Rs.27,097,216 and according to the schedule it was Rs.15,232,576. In the year 2024, the amount received for the year 2023 was Rs.15,189,368. | That this will be corrected and submitted when presenting the final accounts for the year 2025. | The income should be correctly recognized and correctly accounted for. |

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 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comments of the Sabha	Recommendation
(a) Approval of Building Plans		
Out of the applications received for building construction during the year 2024, the number of plans approved as at 31 December 2024, was only 59 out of 309 residential plans and 8 out of 26 business plans, respectively. The number of compliance certificates issued as at 31 December 2024, was 28 for residential and 1 for business.	36 residential building applications have also been approved so far.	Action should be taken to complete it quickly.
(b) Environmental Issues		
The drain at the starting point of Diggala Road runs along Meeriyawatta Gampatha Road to the river via Diggala Road, which belonged to the Provincial Road Development Authority. The following matters were observed in this regard.		
(i) As indicated by Section 4(a)1 of the Sri Lanka Land Reclamation and Development Corporation Act, No. 15 of 1968, as amended by the Sri Lanka Land Reclamation and Development Corporation (Amendment) Act, No. 35 of 2006, Act No. 52 of 1982, and Law No. 27 of 1976, reservations were not maintained on both sides of this drain, and unauthorized constructions had been built right up to the canal bank. It was observed that sewage and other polluted pipelines from these houses were discharged into the canal, which consequently led to the pollution of the canal water.	It is expected that orders will be issued and further action will be taken against unauthorized builders and people who pollute the canal.	Actions should be taken in accordance with the Pradeshiya Sabha Act.
(ii) It was observed that the drain on Diggala Road had been modified from its natural flow path and was designed to flow through a private institution. It was also observed	Necessary measures will be taken to control the flow of water out of this drain in the future.	Actions should be taken in accordance with the Pradeshiya Sabha Act.

that during the rainy season, the water in this canal was blocked and overflowed outside the road, causing pressure on the neighbouring people.

(d) Abandoned Activities

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| (i) | <p>Under the project to construct a public drain on the government land adjoining the Kajugahawatta land on the Punnananda Mawatha in Dibbedda, which was initiated in 1998 to solve a drainage problem that had existed for 25 years, only the drain section running through a private land was constructed at a cost of Rs. 253,577 from the council funds and the project was abandoned midway. Due to this, in addition to the damage caused by rainwater flowing into private lands from a drain on the road, the road was also unusable due to the failure of rainwater to drain.</p> | <p>Necessary steps are being taken to acquire the land for the drain and a sum of Rs. 852,000 has been deposited at the Panadura Divisional Secretariat for this purpose.</p> | <p>The project should be completed and solutions should be provided.</p> |
| (ii) | <p>An amount of Rs.20,000,000 was received from the Local Loan and Development Fund (LLDF) on 27 September 2021, for the construction of the new Keselwatta Public Market building after demolishing the old one, and a monthly interest payment of Rs.150,000 was due on this loan. The grace period granted was 1 year and 7 months, and the instalment was to be paid at the end of the grace period. Another loan of Rs. 4,231,000 was received from the LLDF on 26 April 2022. The interest due for the month of April was Rs.4,173.04, and the monthly interest payable from May onwards was Rs.181,732.50. A third loan instalment of Rs.2,855,300 was received by the Council on 19 June 2024, and a monthly payment of Rs.401,734.23 was due from July 2024. Although the full amount of Rs.20,000,000 received from the LLDF for the modernization of the Keselwatta Public Market was given as an advance equivalent</p> | <p>The project is scheduled to be resumed after obtaining approval from the new council of the Panadura Pradeshiya Sabha and following the correct procurement methodology.</p> | <p>Construction work should be resumed to achieve the objectives of the project.</p> |

to 20 percent of the contract amount of Rs.105,094,983, the work has currently been suspended halfway and no tender has been called to recommence the construction work.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although it was instructed, according to the letter No. LGD/10A/4/20.3/2019 dated 01 February 2021, from the Assistant Commissioner of Local Government, that all fixed assets owned by the institution should be revalued and accounted for when submitting the 2020 financial statements, as per the instructions in the Ministry of Finance and Mass Media's Asset Management Circular No. 2018/4 dated 31 December 2018, the Pradeshiya Sabha had not revalued certain assets during the year 2024.	Not answered.	Action should be taken in accordance with the circular instructions.
(b) Steps had not been taken to collect information and prepare a database for the billboards in the council area by conducting a survey of the billboards by the revenue inspectors.	A billboard survey is being conducted in 2025 and action is being taken to prepare a database accordingly.	A survey and database of billboards should be prepared.
(c) Building additions amounting to Rs.40,862,885 in Note 16 to the financial statements had not been included in the fixed assets register, and only Rs.36,222,383 had been capitalized as fixed assets.	Not answered.	The fixed asset register should be updated.
(d) Although a schedule showing the value of furniture and machinery of Rs.71,124,664 had been submitted for audit, the schedules had not been prepared to show the furniture, machinery and equipment separately.	That it will be presented accurately in the 2025 final accounts.	Separate schedules should be prepared for all assets.

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| (9) The road with two name boards installed on both sides of the road as "Udugahapasathuwa Road" had not been included in the road register of the Sabha as per Section 24 of the Pradeshiya Sabha Act, No. 15 of 1987. | After gazetting, steps will be taken to include this name in the road register. | The Pradeshiya Sabha Act should be implemented. |
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3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
05 vehicles belonging to the Sabha were not in running condition as at 31 December 2024, and although 10 vehicles had been identified for disposal, the disposal had not been carried out even by the end of the year under review.	It is proposed to obtain valuation prices for the 10 vehicles currently identified as being in a state of disrepair and proceed with further work, and only one tractor out of the 5 vehicles that are not in a running condition should be repaired.	Action should be taken to dispose of vehicles that are not in running condition and cannot be repaired.

3.4 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
(a) In addition to the approved cadre, 02, 01 and 31 employees were recruited on substitute, contract and labor basis respectively and an amount of Rs.15,075,059 was paid as salaries from the council fund during the year.	That currently only two substitute employees and 31 employees under the labour basis have been deployed in service."	The approved cadre must be revised and approved.
(b) Sums of Rs.1,369,127 from 8 transferred officers, Rs.788,324 from 12 retired and deceased officers, Rs.192,165 from an officer who was suspended and Rs.236,185 from 4 officers who left the service had not been recovered by December 2024.	An amount of Rs.715,602 from 3 transferred officers and Rs.158,150 from one retired officer had been recovered by 30 May 2025, and the loans from the remaining 5 transferred officers are being recovered in monthly instalments."	Action should be taken to recover outstanding loan balances.
(c) Although the loan balances of transferred officers should	The loan balances of all the transferred officers have now been settled.	Action should be taken to recover

have been settled with the relevant institutions in a lump sum, the loan balance of Rs.1,414,491 belonging to 09 employees who were transferred out of the Council had not been settled.

outstanding loan balances.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
(a) Although provision of Rs.55,100,000 had been made for non-recurrent expenditure from the 2024 budget of the Pradeshiya Sabha, the actual expenditure incurred was Rs.51,934,622.	Not answered.	The budget should be used as a control tool.