

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Aranayaka Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and Statement of financial performance, Cash Flow Statement, Statement of changes in equity 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, the sub section 172(1) of 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 financial statements give a true and fair view of the financial position of the Aranayaka Pradeshiya Sabha as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the financial statement based 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 generally accepted accounting practices, 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 scepticism 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

National Audit Act, No. 19 of 2018 include 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 of this report 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 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The balance of the Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated due to the fact that the value of the bookshelf installed at a cost of Rs. 407,716 during the renovation of the office's archives was not accounted for as furniture and fixtures.	That a correction will be made through a journal entry in 2025.	Assets must be accounted for correctly.

(b)	The balance of the Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated due to the fact that the value of a tractor and trailer, amounting to Rs. 426,128, had not been accounted.	That steps will be taken to correct this when preparing the final accounts for the year 2025.	Assets must be accounted for correctly.
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1.6.2 Unreconciled Control Accounts or Records

	Audit Observation	Comments of the Council	Recommendation
(a)	There was a difference of Rs. 330,619 between the balance as per the financial statements and the balance as per the schedules at the end of the year under review in respect of various advances.	A balance from previous years. The vouchers and receipts related to it cannot be found.	The reasons for the difference must be identified and resolved.
(b)	Although the non-current asset balance at the end of the year under review as per the financial statements was Rs. 222,541,888, as per the commodity survey report it was Rs. 227,999,707, there was a difference of Rs. 5,457,819.	That will work to find the reason for the difference after preparing the schedules.	The reasons for the difference must be identified and corrected.

1.6.3 Suspense Account

Audit Observation	Comments of the Council	Recommendation
The balance of the suspense account of Rs. 631,350, which had existed since 1997, had not been settled during the year under review.	That step will be taken to correct this when preparing the final accounts for the year 2025.	Action should be taken to settle the balance of the suspense account.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Non-compliance Laws, Rules Regulations etc.		Comments of the Council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571(2)	85 deposit balances of Rs. 1,302,420, which were over 02 years old, had not been settled.	That the amount that can be settled will be settled within the year 2025.	Financial regulations must be followed.
(b)	Paragraph 07(IV) of Circular No. 08/2010 of the Local Government Reform Circular Guidelines	Although it had been revealed that unauthorized occupants were residing in 03 cemeteries, the necessary measures had not been taken to take possession of those lands.	That steps will be taken to takeover possession of the relevant properties.	Action should be taken in accordance with the guidelines.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 6,19,867,016 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 22,255,358 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, the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

Source of income	2024				2023			
	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	2,442,031	2,642,064	2,614,043	28,021	2,380,628	2,820,234	2,699,188	121,046
Rent	4,853,950	11,128,583	1,270,159	35,025	6,674,950	3,084,340	3,072,377	11,963
License fees	1,059,414	1,272,259	1,272,259	-	773,170	1,113,081	1,099,581	13,500
Other Revenue	<u>10,658,020</u>	<u>4,974,032</u>	<u>4,974,031</u>	<u>-</u>	<u>5,848,982</u>	<u>7,466,209</u>	<u>7,466,209</u>	<u>-</u>
	<u>19,013,415</u>	<u>20,016,938</u>	<u>10,130,492</u>	<u>63,046</u>	<u>15,677,730</u>	<u>14,483,864</u>	<u>14,337,355</u>	<u>146,509</u>

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the sabha are given below.

	Audit Observation	Comments of the Council	Recommendation
(a)	Rs. 80,477 of the outstanding assessment tax balance due at the end of the year under review had not been collected by 31st March 2025. Also, although the assessed property is required to be assessed once every 5 years, no reassessment had been carried out after the year 2011.	That efforts are being made to recover the arrears.	Action should be taken to recover the arrears of revenue.
(b)	Rs. 109,015 in arrears of house rents more than two years had not been recovered by the end of the year under review.	Efforts are being made to recover it in 2025.	Action should be taken to recover the arrears of revenue.

3. Operational Review

3.1 Performing of Functions Enacted 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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

By-laws

Audit Observation	Comments of the Council	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, by-laws were to be enacted to address 30 main issues, but as at 31 st December 2024, by-laws had been enacted for only 05 issues.	No comments.	Action should be taken in accordance with the Pradeshiya Sabha Act.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) 19 balances worth Rs. 199,605, which could have been taken as sabha revenue, were held in the general deposit account without being taken as revenue.	Action will be taken in the future.	Steps should be taken to settle past due deposits that can be taken into revenue.
(b) The value of 37 land and building items identified in the 2023 Asset Survey had not been assessed and accounted.	That step will be taken to correct this when preparing the final accounts for the year 2025.	The relevant property should be valued and accounted.
(c) Detailed schedules had not been prepared for 02 accounting items totaling Rs.36,050,315.	That the final account for 2025 will be submitted with schedules.	Detailed schedules should be prepared regarding the referenced accounting items.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Although in terms of Section 07 (59) of Chapter III of the Pradeshiya Sabha (Finance and Administration) Rules, 1988, a survey should be conducted within the jurisdiction of the sabha at the beginning of each year and a list of industries should be prepared and submitted to the Secretary by 31st March, such a survey had not been conducted for the year under review.	Billing is done without collecting trade applications and submitting a report.	The Pradeshiya Sabha should act in accordance with its rules.

3.4 Assets Management

Audit Observation

A tractor and trailer worth Rs. 262,500 received from the Ministry of Policy and Plan Implementation, which had been inactive for about 15 years, had not been takeover and disposed.

Comments of the Council

That after taking over the ownership, they will take immediate action to dispose of it.

Recommendation

Action should be taken to ownership and dispose of the referred vehicle.