

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Musali Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, Income and Expenditure Account, 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.

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 Musali 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 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 Scope of Audit (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

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) Except for the observations 1.6.1(e) & 1.6.2 mentioned in my report, 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 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Ten capital projects which were carried out during the year under review using a sum of Rs. 44,530,484 from the Local Development Support Project, Provincial Specific Development Grant and Sabha funds, had not been capitalized.	That it will be corrected in the annual final accounts for the year 2025.	The accounts should be prepared correctly.
(b) The value of a capital project implemented with the funds of the Sabha during the year under review had been understated in the financial statements by Rs. 352,908.	-Do-	Financial Statements should be prepared correctly.
(c) The store inventory amounting to Rs.153,538 as at the end of the year under review had not been disclosed as current assets in the financial statements.	-Do-	-Do-
(d) The estimated cost of Rs.389,592 relating to 04 unfinished construction works had been accounted for as development reserves.	-Do-	The accounts should be prepared correctly.
(e) The value of 18 fixed assets received as donations to the Sabha had not been assessed and included in the financial statements.	-Do-	-Do-

1.6.2 Lack of Written Evidences for Audit

Audit Observation	Comments of the Council	Recommendation
Due to lack of evidence, the accuracy of the arrears of meat stall rent of Rs. 199,740, which had been due for more than 10 years, could not be verified.	That the steps have been taken to write-off the arrears of rent owed by this meat stall.	Action should be taken to keep the records up to date.

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.6,476,865 compared to the excess of income over recurrent expenditure amounted to Rs.5,132,976 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, 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	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.
Rates and Taxes	50,000	31,500	31,500	-	-	-	-	-
Rent	6,887,620	8,101,209	7,558,674	542,535	6,076,750	7,892,055	7,315,722	576,333
License Fee	1,082,900	977,400	977,400	-	954,510	1,014,250	1,014,250	-
Other Revenue	10,414,000	12,874,559	12,824,309	50,250	6,631,000	7,681,123	7,638,923	42,200
Total	18,434,520	21,984,668	21,391,883	592,785	13,662,260	16,587,428	15,968,895	618,533

2.2.2 Performance in Collecting Revenue

Audit Observation	Comments of the Council	Recommendation
The total amount of Rs.2,315,089 in arrears of shop rent, vehicle rent and drinking water tax had not been collected for a period of last 01 to 09 years.	That legal action has been taken to recover the arrears.	Arrears of revenue should be collected promptly.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The balance of Rs.15,000,000 available in fixed deposits during the year under review had not been utilized for development activities related to public utility services as mentioned in Section 108 of Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987 and had been deposited with the bank for the purpose of earning interest income.	Since it is a council with a minimum income, a certain amount of income can be generated from this money.	Steps should be taken to utilize excess funds in development activities related to public utility services in accordance with the Pradeshiya Sabha Act.
(b) No action had been taken to utilize the balance of Rs. 15,557,317 in the bank current account in income generating sources or development activities.	Measures will be taken to utilize it in special projects related to public welfare in the future.	Steps should be taken to invest in income-generating sources or development activities.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Although, in accordance with Section 15(1) of the Housing Construction and Urban Development Ordinance No. 15 of 1915, a Certificate of Compliance (COC) should be issued to verify whether the buildings have been constructed in accordance with the provisions of the Act, certificates of compliance had not been issued for 85 development permits issued for the construction of buildings by the end of the year under review	Notifications have been issued to obtain the certificate of compliance.	Steps should be taken to issue the certificates of compliance.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Steps had not been taken to acquire 08 parks, 07 shopping complexes, 07 meat stalls, 03 slaughterhouses, 15 playgrounds, 04 halls, 05 libraries, 04 cemeteries and 15 other lands currently in use by the Sabha.	Work is underway to obtain documents for the lands.	The ownership of assets should be cleared without delay.
(b) Five Sabha vehicles, which were in an unusable condition despite being repaired, had been abandoned in the vehicle yard for over 15 years without any action being taken to dispose of them.	We are unable to take steps to sell the property at auction due to the fact that ownership has not been transferred.	Steps should be taken to transfer ownership and dispose of unused assets.
(c) Appropriate action had not been taken to settle the retirement advance of Rs.104,644 given to an officer for over 25 years.	It is impossible to clear the advance due to the lack of proof of receipt of the cheque.	Appropriate action should be taken to settle the advances.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure with the actual income and expenditure as per the budget prepared for the year under review, there were variations ranging from 18 percent to 37 percent in 04 income objects and from 22 percent to 64 percent in 05 expenditure objects, therefore, the budget had not been used as an effective management control tool.	The variance was due to unexpected income and high expenses.	The budget should be prepared carefully, identifying the needs.