Nanattan Pradeshiya Sabha - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nanattan 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 Nanattan 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) 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**)	The value of 07 capital projects completed for Rs. 12,299,774 from the funds and development reserves of the Council in the year under review and previous years had not been capitalized.	That it will be settled in the final accounts of the coming year.	All capital expenditure should be included and the accounts should be prepared correctly.
(**b**)	The final payments and value added tax of 08 capital projects worth Rs.**9**,548,046 were not disclosed in the financial statements during the year under review.	**-Do-**	Financial statements should be prepared accurately, including all capital project costs.
(**c**)	The estimated cost of Rs. 5,550,692 related to 04 unfinished constructions had been accounted for as creditors.	That they were listed as creditors in the financial statements because they could not make payments in the year.	Account balance adjustments should be made.
(**d**)	Electric and stores inventory amounting to Rs.2,792,147 as at the end of the year under review had not been disclosed as current assets in the financial statements.	That it will be settled in the next year's final accounts.	Stock balances should be entered correctly and the financial statements should be prepared.

(e)	The outstanding balance payable by the Council to the Local Loan Development Fund was Rs.274,604, but it was stated as Rs.4,079 in the financial statements.	That steps have been taken to make payments in the year 2025**.**	Financial statements should be prepared with correct balances.

1.6.2 Un-reconciled Control Accounts or Records

Audit Observation	**Comments of the Council**	**Recommendation**
There was a difference of Rs. 5,411,203 between the balance as per the financial statements and the corresponding balances in the records in respect of 03 subjects.	Steps are being taken to correct the difference.	Steps should be taken to reconcile the balances in the financial statements with the relevant source documents.

1.7 Non-compliance

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

Reference to Laws, Rules, Regulations and Management Decisions	**Non-compliance**	**Comments of the Council**	**Recommendation**
Sub-section IX (b) of Section 126 of the Provincial Councils Act No. 15 of 1987	Fees totaling Rs. 10,509,753 had been collected without preparing by-laws regarding the imposition of fees for wastewater disposal and garbage disposal.	Action will be taken to prepare by-laws in the future.	The provisions of the Act should be followed.

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.51,994,298 compared to the excess of income over recurrent expenditure amounted to Rs.17,229,150 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.

	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.
Rates and Taxes	1,016,000	1,414,666	1,414,666	-	-	-	-	-
Rent	23,764,900	45,129,208	45,129,208	-	11,900,985	10,757,568	10,757,568	-
License Fee	1,384,500	1,454,084	1,454,084	-	1,542,395	1,342,968	1,342,968	-
Other Revenue	5,798,647	8,873,628	8,857,628	16,000	4,346,338	8,049,635	8,067,635	18,000
Total	**31,964,047**	**56,871,586**	**56,855,586**	**16,000**	**17,789,718**	**20,150,171**	**20,168,171**	**18,000**

2.2.2 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
The total stamp duty as at 31 December 2024 was Rs. 573,491, which was due for collection over 02 years.	Annexure II had not been received from the District Land Registrar's Offices. Further action will be taken as soon as it is received.	Appropriate action should be taken to promptly recover outstanding amounts.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Council	Recommendation
(a)	The balance of Rs. 15,000,000 available in fixed deposits during the year under review had been deposited with the bank for the purpose of earning interest income, without being used for development activities related to public utility services as specified in Section 108 of Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987.	Steps will be taken to invest the funds in development activities in 2025 with the approval of the Governor.	Steps should be taken to utilize surplus funds in development activities related to public utility services in accordance with the Pradeshiya Sabha Act.

(b)	The council had not taken any action against the tenants regarding the sub-lease of 02 lands and 25 shops.	Action is being taken to address this matter.	Appropriate action should be taken against the tenants.
(c)	The long-term lease agreements of 18 shops, which were to be renewed every 05 years, had been maintained for a period of 05 to 09 years without being renewed.	The process of renewing the contracts is underway.	Steps should be taken to renew the rental contracts at the specified periods.

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, the Certificate of Compliance had not been issued for 99 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 certificate of conformity.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
Steps had not been taken to transfer the ownership of 53 lands and 02 vehicles used by the Council to the name of the Council even at the end of the year under review.	Steps have already been taken to transfer ownership.	The ownership of the assets owned by the council must be cleared.

3.4 Procurement Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Although the Technical Evaluation Committee (TEC) should have included a person with subject knowledge as per guideline 2.8.1(b) of the Procurement Guidelines-2006 of the Democratic Socialist Republic of Sri Lanka, contrary to that, the Council had purchased electrical equipment	That, actions will be taken in accordance with the procurement guidelines in the future.	Actions should be taken in accordance with the procurement guidelines.

	and vehicle spare parts totaling Rs. 2,120,062 on 11 occasions.		
(b)	Although, in accordance with section 8.9.1 (b) of the Chapter 08 of the above mentioned Procurement Guidelines, a formal agreement should be entered into for the procurement of any goods or services exceeding Rs.500,000, a formal agreement had not been entered into with the supplier in respect of 08 procurements totaling Rs. 18,637,495.	-Do-	-Do-

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 34 percent to 90 percent in 03 revenue objects, from 16 percent to 69 percent in 04 expenditure objects and 24 percent in a capital expenditure object, indicating that the budget had not been used as an effective management control tool.	Action will be taken in the future regarding the issues you have disclosed regarding the budget.	The budget should be prepared carefully, identifying the needy.