Puthukkudiyiruppu Pradeshiya Sabha - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Puthukkudiyiruppu 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 Puthukkudiyiruppu 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 69 lands owned and used by the Council had not been assessed and accounted for by the end of the year under review.	That it will be assessed and accounted for in the future.	Accounts should be prepared accurately, including all asset values.
(b)	The value of 03 constructions worth Rs. 5,478,900, which had been completed during the year under review, had not been capitalized.	Payments were made for that in the year 2025.	Financial statements should also be prepared accurately.
(c)	The estimated cost of Rs. 14,452,885 relating to 07 unfinished constructions had been accounted for as creditors.	Due to the accrual basis of accounting, they were shown as creditors.	-Do-

1.7 Non-compliance

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

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Council	Recommendation
(a)	Provincial Finance Circular No. PF/01/2017 dated 07th March 2017 and Rule 5(12) of the Provincial Council (Finance and Administration) Rules, 1988	The employee security deposit of Rs. 107,500 due from 07 officers of the council had not been recovered by the end of the year under review.	Instructions have been given to recover the security deposit from the 07 officers of the council.	Steps should be taken to recover the security deposit as per the circular.

(b)	Public Finance Circular No. 01/2014 dated 17 February 2014 and Sub-section 16(2) of the National Audit Act, No. 19 of 2018	The Council had not submitted the annual performance report along with the financial statements for audit.	That the annual performance report along with the financial statements will be submitted in the future.	Steps should be taken to submit the annual performance report along with the financial statements for audit in accordance with the provisions of the circular and the 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.75,964,700 compared to the excess of income over recurrent expenditure amounted to Rs.51,513,707 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 Revenu**	**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	2,666,000	3,321,471	2,073,466	1,248,005	2,742,000	1,351,268	841,162	510,106
Rent	23,081,000	23,571,954	22,260,905	1,311,049	20,007,000	20,196,371	18,878,537	1,317,834
License Fee	2,774,000	34,312,425	34,312,425	-	10,258,000	9,882,350	9,882,350	-
Other Revenue	20,138,000	24,811,726	24,446,476	365,250	24,986,000	35,776,108	35,341,581	121,387,
Total	48,659,000	86,017,576	83,093,272	2,924,304	57,993,000	67,206,097	64,943,630	1,949,327

2.2.2 Performance in Collecting Revenue

Audit Observation	Comments of the Council	Recommendation
No action had been taken to recover the court fines of Rs. 22,147,000 due to the Council as of 31 December 2024.	The steps have been taken to recover the arrears.	Appropriate steps should be taken to recover the arrears without delay.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The Council had deposited the balance of Rs. 158,588,000 in fixed deposits in the year under review in the bank for the purpose of earning interest income, without using it 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.	That it will be withdrawn at the time of need for development activities and used in those development tasks.	Steps should be taken to use in development activities related to public utility services in accordance with the Pradeshiya Sabha Act.
(b)	The council had lost an annual income of Rs. 156,000 due to the non-use of 02 shops at the Pudukkudiyiruppu Public Market constructed by the council.	Bids were called but no one applied, so these shops were not given for use.	Appropriate steps should be taken to give them on rent.
(c)	Two projects worth Rs. 2,600,000 for which the Council had made budget provisions in the year under review had not been initiated by the end of the year under review.	That it was included in the 2025 budget plan the work is being carried out.	Steps should be taken to start projects within the stipulated time frame and complete them on the stipulated dates.

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 62 development permits issued for the construction of buildings by the end of the year under review.	Steps will be taken to issue certificates of compliance in the near future.	Steps should be taken to issue the certificate of compliance.

3.3 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	11 constructions were carried out at a cost of Rs.82,243,867 on properties not belonging to the Council, contrary to paragraph 1.1 of Finance Commission Circular No. 2016/01 dated 30 December 2015.	That the land acquisition measures have been taken.	Steps should be taken to obtain formal documents related to the ownership of the lands.
(b)	Steps had not been taken to transfer 13 vehicles to the council's name used by the council for a long time.	It is not possible to obtain documents and takeovers cannot be carried out.	The ownership of the vehicles should be clarified by consulting the Department of Motor Traffic Commissioner.
(c)	The Deputy Provincial Directorate of Agriculture had provided 02 wood milling machines worth Rs. 400,000 to the council in 2022 for the production of compost fertilizer, but steps had not been taken to use those machines for the production of compost fertilizer even as of the reporting date.	Although production activities have decreased, efforts are being made to continuously produce compost fertilizer.	Steps should be taken to fully utilize the assets.

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 27 percent to 1,137 percent in 05 income objects and from 32 percent to 85 percent in 05 expenditure objects, and budget estimates were not allocated for one capital expenditure object, therefore, the budget had not been used as an effective management control tool.	That the budget will be prepared in the future under proper management in accordance with financial regulations.	The budget should be prepared carefully, identifying the needs.