

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Polonnaruwa Pradeshiya Sabha for the year ended 31 December 2024 comprising the Statement of assets and liabilities as at 31 December 2024 and the Comprehensive Income Statement, Statement of changes in Net Assets/Equity, Cash Flow Statement 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, Sub-Section 172 (1) of the 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 accompanying financial statements give a true and fair view of the financial position of the Polonnaruwa Pradeshiya Sabha as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

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 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 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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with the reference to particular Standard	Comments of the Sabha	Recommendation
Although according to EG 2.7 of Appendix 02 of the Sri Lanka Public Sector Accounting Standards for Local Government Institutions, capital expenditure grants should not be recognized as lump sum income but should be recorded in the comprehensive income statement on a depreciation basis, the total amount of capital received during the year was recognized as lump sum income in the comprehensive income statement without doing so.	Agreed.	The Sri Lanka Public Sector Accounting Standards for Local Government Institutions should be followed.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) 06 balances worth Rs. 2,257,554 which could not be recovered from the debtors due to various reasons had been accounted under debtors.	Relevant adjustments will be made.	Should be accounted correctly.
(b) Balances worth Rs. 2,280,719 which could not be paid to creditors due to various reasons, had been further recorded under creditors without being cut off.	Relevant adjustments will be made.	Appropriate action should be taken regarding creditor accounts that are not

confirmed to have a balance.

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| (c) | Due to the fact that 10 balances worth Rs. 571,486, which were not required to be repaid, were recorded in the savings account since 2017 without adjusting the accumulated fund, the accumulated fund was recorded under the same amount and the savings balance was recorded over the same amount. | Relevant adjustments will be made. | Should be accounted correctly. |
| (d) | Rs. 1,481,756 related to 02 unaccountable gravel road developments under bridges and culverts and Rs. 4,519,123 related to 06 roads listed twice in the schedule, totaling Rs. 6,000,879 had been overstated under bridges and culverts.. | Relevant adjustments will be made. | Account adjustments should be made accurately. |
| (e) | The total annual depreciation value of Rs. 2,668,820 was over-accounted for in the year under review. | Relevant adjustments will be made. | Should be accounted correctly. |
| (f) | During the year under review, the value of building repairs worth Rs. 1,070,607 was accounted for under bridges, culverts and roads. | Relevant adjustments will be made. | Should be accounted correctly. |
| (g) | The outstanding revenue of Rs. 148,800 from the use of the Gallella slaughterhouse was not disclosed in the financial statements. | Relevant adjustments will be made. | Should be accounted correctly. |
| (h) | The balance of various deposits as at 31st December of the year under review was overstated by Rs. 6,651,392. | Relevant adjustments will be made. | Should be accounted correctly. |
| (i) | The general warehouse stock balance as at 31st December of the year under review was understated by Rs. 898,160. | Relevant adjustments will be made. | Should be accounted correctly. |
| (j) | As at 31st December of the year under review, 4 items of office equipment worth Rs. 240,530 had been abandon. | Relevant adjustments will be made. | Should be accounted correctly. |
| (k) | As at 31st December of the year under review, the mobile stall income and late fee of Rs. 132,100 which were receivable as per the document, had not been accounted. | Relevant adjustments will be made. | Should be accounted correctly. |

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| (l) | As at 31 st December of the year under review, the outstanding asset lease value and late fees of Rs. 950,730 had not been accounted. | Relevant adjustments will be made. | Should be accounted correctly. |
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1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a unreconcile of Rs. 2,842,914 between the balances as at 31 December 2023 as per the financial statements and the balances as per the opening journal entries of the year under review.	That the necessary steps are being taken to make the relevant adjustments and correct .	Account books should be reconciled and correct values recorded.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to the non-submission of bank reconciliation statements, bank statements, balance confirmations and schedules in respect of 5 account subjects amounting to Rs. 36,746,211 it was not possible to satisfactorily examine that account balances.	Bank balances that have been in existence for a long time are being verified and schedules are being submitted.	Evidence confirming account balances must be submitted.

1.7 Non- Compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc as follows.

Reference to laws, rules,regulations and management decisions	Non-compliance	Comments of the Sabha	Recommendation
(a) Gazette Extraordinary No. 1597/8 dated 17 th of April 2009	Although 106 building applications were approved from 2020 to 2023, certificates of compliance	That the necessary steps are being taken to inform in writing.	Arrangements should be made to issue

were not issued for 75 applications.

certificates of compliance.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

104 (3) & 104 (4)	During the year under review, action had not been taken in accordance with the provisions of the Road Development Authority regarding the loss of Rs. 186,500 due to the deck of the tipper vehicle being winding while performing duties related to it.	A committee has been appointed for the preliminary investigation and the preliminary investigation report in accordance with 104 (3) has not yet been received by the Sabha.	Financial regulations should be followed.
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- (c) Circular

Public Administration and Management Circular No. 30/2016 dated 29th December 2016	Fuel combustion tests had not been conducted on 08 vehicles of the Pradeshiya Sabha.	Fuel inspection will be carried out promptly.	Action should be taken as per the circular.
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2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 84,003,120 as against with the excess of expenditure over revenue amounted to Rs. 2,719,241 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 of the Sabha, information related to the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and for the previous year is mentioned below.

Source of Revenue		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.
(i)	Rates and Taxes	1,330,529	1,459,046	1,970,579	1,535,118	1,469,842	2,167,668	2,645,906	1,288,958
(ii)	Rent	9,794,300	11,706,801	15,085,122	907,507	5,970,935	3,844,449	3,660,616	1,303,333
(iii)	License fees	368,250	792,967	812,516	56,700	269,250	375,063	360,813	46,250
(iv)	Other Revenue	2,222,970	3,974,052	3,934,552	1,136,471	75,086,430	39,238,000	71,762,246	12,817,320
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		13,716,049	17,932,866	21,802,769	3,635,796	82,796,457	45,625,180	78,429,581	15,455,861
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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 Sabha	Recommendation
(a) Rates and Taxes		
(i) The rates tax revenue due as on the last day of the year under review was Rs. 1,248,864, of which Rs. 926,514 remained to be collected for the previous year, and although the billed revenue for the year under review was Rs. 430,368, the revenue collected from it was Rs. 91,944, that is 21 percent less.	Legal proceedings will be carried out in 2025.	Action should be taken to recover the arrears of revenue.
(ii) The outstanding industrial and business tax revenue due for the previous year was Rs. 777,110.	No answers were given.	Action should be taken to recover revenue.
(iii) Although more than 6 years had passed since the liquidation of the Thamankaduwa Pradeshiya Sabha in 2018, action had not been taken to recover the outstanding garbage tax revenue of Rs. 557,500 that had been given to the Polonnaruwa Pradeshiya Sabha for recovery.	No answers were given.	Action should be taken to recover revenue.
(b) Rent		
As of the last day of the year under review, Rs. 278,717 was due for rent from previous years, while Rs. 81,900 was due for rental of vehicles and machinery.	Necessary actions are being taken for recovery.	Action should be taken to recover revenue.

(c) Court fines and Stamp duty

The court fines receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2024 were Rs. 59,028,305 and stamp duty was Rs. 25,941,750.	Project proposals have been submitted.	Action should be taken to bring in the scheduled revenue.
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(d) Other Revenue

Action had not been taken to recover the outstanding water charge revenue of Rs. 174,321, which had been outstanding for over 05 years, even in the year under review.	Necessary actions are being taken to recover the arrears of revenue.	Action should be taken to recover revenue.
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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.

Audit Observation	Comments of the Sabha	Recommendation
Although by-laws can be enacted to fulfill 23 main matters under Section 126 of the Pradeshiya Sabha Act, by-laws had not been enacted for 09 main matters as at 31 st December 2024.	That will be arranged.	The affairs of the sabha should be streamlined by enacting by-laws.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
A tractor water bowser and a lawn mower hand tractor have been parked in the parking lot since inactively 2015 and 2018 respectively and no steps had been taken to dispose of them properly..	The tractor water bowser and a lawn mower hand tractor have been referred for disposal.	Action should be taken to dispose of it as appropriate.

3.3 Assets Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Action had not been taken to transfer the ownership of 35 lands, which are used by the Pradeshiya Sabha for offices, libraries, cemeteries and playgrounds, worth Rs. 27,290,532, to the Pradeshiya Sabha..	That the necessary steps are being taken to transfer assets.	Action must be taken to take over the ownership.
(b)	Although 4 years had passed since the Pradeshiya Sabha received the motor grader, it was still being running without registration.	When the motor grader was hand overed to the sabha, it was not provided with its registration certificate.	Action should be to registration.

3.4 Idle or underutilized Property, Plant and Equipment

	Audit Observation	Comments of the Sabha	Recommendation
	Three asset items worth Rs. 9,086,611 owned by the sabha remained idle without being utilized for various reasons.	It will be put into use from 2025.	Action should be taken to utilize assets.

3.5 Delays in Project Activities or Capital work

	Audit Observation	Comments of the Sabha	Recommendation
	Under the budget proposals included in the action plan for the year 2024, 17 construction and maintenance works of roads, culverts, vehicle yard, toilets, cemeteries, and drainage systems were planned and allocated Rs. 6,000,000, but they had not been implemented in the year under review.	It is expected to be achieved in 2025.	Projects should be planned and implemented.

3.6 Human Resources Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	There were 30 vacancies for 14 posts in the Pradeshiya Sabha including Development Officer,	Relevant institutions have been informed about employee vacancies.	Approvals must be obtained to fill

Management Assistant, Librarian, and Technical Officer, while there was a excesses of 04 officers for the posts of Office Assistant and watcher.

vacancies and for excesses employees.

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| <p>(b) 17 officers serving in the posts of Road labours, Health labours, Office Assistants, Library Assistants in the Pradeshiya Sabha were performing duties in other posts such as Subject Officers, Drivers and watcher, Librarians, Pre-School Teachers, which were not related to their regular posts, for a period of 1 year to 18 years.</p> | <p>The relevant institutions have been informed about this.</p> | <p>Should be employed in permanent positions.</p> |
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4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
When the budgeted income and expenditure of the Sabha for the year under review were examined with the actual income and expenditure, a variation of 10 percent to 115 percent was observed in 05 income items and 06 percent to 81 percent in 06 expenditure items, indicating that the budget had not been used as an effective financial guide.	It is expected to be achieved in 2025.	The budget should be used as an effective financial guide.

4.2 Sustainable Development Goals

Audit Observation	Comments of the Sabha	Recommendation
The Pradeshiya Sabha had not identified and implemented sustainable development objectives, programs and criteria as per the regulations of the Sustainable Development Act No. 19 of 2017.	That the sustainable development goals, programs and objectives for the year under review have been identified.	Actions should be taken in compliance with the objectives and programs set out in the Act.