

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Addalachenai Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Balance Sheet as at 31 December 2023, 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 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 Addalachenai Pradeshiya Sabha as at 31 December 2023, 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 Practicals, 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 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 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 1,111 books donated during the year under review was calculated at Rs.255,995 but was not shown as an asset in the financial statement.	The adjustment will be made while preparing the financial statements for the next financial year.	Action should be taken to disclose it as an assets.
(b) An amount of Rs.11,118,150 as stamp duty due during the review year was confirmed as due from the Provincial Revenue Department but the same amount was not shown in the financial statement.	-Do-	Action should be taken to disclose it as payment receivable.

1.7 Non- Compliances

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

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Section 571(1),(2),(3) of the Financial Regulation of Democratic Socialist Republic of Sri Lanka.	The council had not taken appropriate action regarding 06 overdue deposits amounting to Rs 562,244 for more than two years.	Action will be taken to inform the concerned. In case of failure, action will be taken to convert it into the income of the council.	Action should be taken in respect of overdue deposits as per financial rugulation.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.13,776,717 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 8,091,768 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 Sabha, information relating to 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	2023				2022			
	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.)
i. Rates and Taxes	350,000	167,235	167,235	-	350,000	146,200	146,200	-
ii. Rent	13,975,000	11,625,839	8,901,169	2,724,670	11,960,000	9,954,669	8,583,869	1,370,800
iii. License Fees	1,372,000	1,133,450	1,010,450	123,000	1,542,000	757,475	757,475	-
iv. Other revenue	20,805,000	20,431,478	19,469,592	961,885	15,930,000	15,769,748	13,698,423	2,071,324
Total	<u>36,502,000</u>	<u>33,358,002</u>	<u>29,548,446</u>	<u>3,809,555</u>	<u>29,782,000</u>	<u>26,628,092</u>	<u>23,185,967</u>	<u>3,442,124</u>

2.2.2 Performance in Revenue Collection

The observations regarding performance in all revenue collection of the Sabha is shown below.

Audit Observations	Comments of the Council	Recommendations
(a) Action had not been taken to settle the outstanding lease amount of Rs 273,300 for more than 07 years.	That people who do not pay arrears remain undetected and therefore those have been written off.	Steps should be taken to collect the dues promptly.
(b) Action had not been taken to issue annual business license certificates to 235 business establishments under the jurisdiction of the council.	Steps will be taken to issue business permits within the specified period.	The approval process should be expedited.
(c) Stamp duty of Rs.1, 583,267 was due from the Chief Secretary of the Provincial Council and other authorities as of 31 December 2023.	That the steps have been taken to collect the stamp duty	Steps should be taken to collect the stamp duty in due time.

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
(a) A contract was signed with a private company to rent out the Solid waste management plant of the council at a monthly rate of Rs. 667,500 in the year 2022 and despite receiving an advance payment of Rs. 3,000,000 no rent and electricity bills were paid to the council during the said period.	A notice to pay the balance was issued. In addition to this, legal action has also been taken against the company.	Steps should be taken to collect the income in a proper manner in every month.
(b) The value of 33 lands and buildings owned and used by the council were revalued and their true value was not shown in the financial statements.	Steps will be taken to revalue the land and buildings and show them in the financial statements.	Action should be taken to revalue and settle accounts.

3.2 Assets Management

Audit Observations	Comments of the Council	Recommendations
(a) Action had not been taken by the council to repair and re-use the 10 long-term dilapidated vehicles owned by the council or sell them at auction and disposed off.	Action has been taken to repaired and sold at auction regarding the vehicles.	Action should be taken as per Asset Management Circular No: 05/2020.
(b) The amount of Rs 556,000 which was collected from the people as road excavation fee for 266 water connections during the end of current year had not been reimbursed and the roads had not been reconstructed.	That the Steps will be taken to refund deposits for roads where work has been completed and to convert unrecovered deposits into income.	Steps should be taken to reconstruct the roads
(c) Action had not been taken to transfer the ownership of 07 vehicles donated by other institution to the name of the Sabha.	That there have been delays in the transfer of ownership due to huge amount of customs duty payable on the above vehicles.	Steps should be taken to transfer ownership of vehicles to the name of the Sabha.
(d) The values of 31 vehicles owned and used by the council were revalued and their true value was not shown in the financial statements.	That the steps are taken to assess the value	Action should be taken to revalue and settle accounts.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation

According to the National Environment Act No. 47 of 1980 as amended by Acts No. 56 of 1988 and No. 53 of 2000 and the regulations thereunder, there were industrial establishments that were required to obtain licences, but the Sabha had not taken any action to renew the expired licenses of 130 industrial establishments.

Comment of the Council

Steps have been taken to further streamline and standardize.

Recommendation

Renewal of licenses shall be done in accordance with the appropriate act.

4.2 Failure to obtain expected level of fulfillment

Audit Observation

The amount of Rs. 5,281,850 had been spent from the beginning of 2022 till the reviewed year for the construction of the building reconstruction works for Thiraikeni pre-school, land filling, construction of round walls, children's play equipment and furniture for students and teachers, but no action had been taken by the council to complete it and involve it in the educational activities of the students.

Comment of the Council

Steps are being taken to complete the works under LDSP for complete completion and use as soon as possible.

Recommendation

Steps should be taken to accelerate the completion of the specific reconstruction work and the achievement of the target.