

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Pothuvil 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 reported 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 Pothuvil 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 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 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 Observations	Comments of the Council	Recommendations
(a) Capital expenditure of Rs 219,500 for Mahindra Cab vehicle in 2022 was shown as recurring expenditure and the value of fixed assets was understated by this amount in the financial statement till the review year.	Transactions to convert it to capital expenditure will be carried out through a journal entry.	Steps should be taken to show the capital expenditure as fixed assets.
(b) As the annual opening balance of State grant for capital expenditure was not brought forward, the financial statement for the review showed an increase in accumulated funds by Rs.296,937,210 and a decrease in State grant for capital expenditure.	No reply given	Action should be taken to bring forward the opening balance properly.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.10,495,411 as against the excess of recurrent expenditure over revenue amounted to Rs.18,181,148 in the preceding year

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

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	3,500,000	3,500,000	130,000	3,370,000	1,625,000	1,625,000	750,000	875,000
ii. Rent Income	19,750,000	34,284,358	10,941,288	23,343,070	18,820,000	29,462,566	7,831,967	13,568,608
iii. License Fees	5,010,000	5,010,000	4,062,720	947,280	4,910,000	2,642,220	2,642,220	2,267,780
iv. Other revenue	9,205,000	9,205,000	4,793,278	4,411,721	8,705,000	5,798,665	5,798,665	2,906,334
Total	<u>37,465,000</u>	<u>51,999,358</u>	<u>19,927,286</u>	<u>32,072,071</u>	<u>34,060,000</u>	<u>39,528,451</u>	<u>17,022,852</u>	<u>19,617,722</u>

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

Audit Observation	Comment of the Council	Recommendation
Action had not been taken to recover the market shop rent of Rs.5,042,520 at the end of the year under review.	Actions are taken to recover the balances and are being collected.	Steps should be taken to expedite the assessment of outstanding income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
(a) In case of review of the contract for 33 shops found in the public market there were no signatures of the tenants and as per the terms of the contract, no arrears were collected from the 17 tenants, Rs 1,608,000 dues which have not been carried out and the council is unable to recover the arrears of rent through legal action.	Legal action cannot be taken due to non-performance of contracts in the past. However, steps have been taken to recover the balances through reconciliation.	Appropriate systems should be developed and steps should be taken to recover the arrears promptly.
(b) As the ownership of the double cab vehicle handed over to the council by an International Charity Organization in 2013 was not transferred, an amount of Rs. 235,000 was spent from the council funds for the repair of an accident in 2022, which could not be insured.	Actions regarding the change of ownership will be taken and reported to audit.	Action should be taken to transfer ownership promptly.

3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) The ownership of 11 vehicles used by the council had not been transferred to the name of the council by the date of the audit.	A few vehicles ownership is to be transferred to the name of the council.	Steps should be taken to transfer ownership of vehicles to the name of the council.
(b) Items such as oil expeller, oil filter, cobra dryer, scale machine, cobra cutter and empty bottles were purchased on 20 July 2023 for Rs.14,693,782 not installed and is stored in an unsafe location.	No reply given	Action should be taken to achieve the desired target.

3.3 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
Action had not been taken to collect the loan amounting Rs 785,135 from 21 permanent and temporary employees. Also, the employee loan register does not contain the information of all the employees who have received the loan.	Actions will be taken to recover the arrears loan.	Immediate action should be taken to recover the loan arrears from the concerned officers or bailiffs.

3.5 Management of Vehicle Fleet

Audit Observations	Comments of the Council	Recommendations
(a) Action had not been taken by the council to repair and re-use or sell them at auction of the 16 long-term dilapidated vehicles.	At present, the measures for this have been carried out.	Action should be taken to repair and reuse the vehicles.
(b) Four vehicles had been seen in the council as unusable for more than 8 years, but no action had been taken to remove them from the property.	- Do -	Proper permission and steps should be taken to remove it from the property.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation	Comment of the Council	Recommendation
Action had not been taken by the council to renew the expired licenses of the 23 industrial establishments which had obtained environmental permits in the past and to maintain records of unregistered industrial establishments.	Data will be collected regarding the Industrial establishments that are required to obtain environmental permits and steps will be taken to register them.	Actions should be taken to issue and renewal of environmental permit.