

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Pachchileipalli Pradeshiya Sabha for the year ended 31 December 2023 comprising the balance sheet as at 31 December 2023 and income and expenditure account and 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 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 accompanying financial statements give a true and fair view of the financial position of the Pachchileipalli 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 Principles.

**1.2 Basis for Qualified Opinion**

My opinion is qualified 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 Principles, 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

<b>Audit Observations</b>	<b>Comment of the Sabhas</b>	<b>Recommendations</b>
(a) Estimated cost of Rs. 4,974,849 related to 02 unfinished constructions had been accounted as creditors.	That both relevant tasks have been completed at present.	Accounts should be properly prepared.
(b) Total payable expenses amounting to Rs. 1,582,575 had not been shown as a Liability in the financial statements.	That actions had been taken to correct in the final accounts of the year 2024.	Accounts should be properly prepared.

## 1.7 Non- Compliances

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

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
571(1), (2) and (3) of the Finance Regulations of the Democratic Socialist Republic of Sri Lanka	13 overdue deposits totaling Rs. 749,595 more than 02 years old had not been settled.	That there is a situation where these payments cannot be made as the investigations are ongoing.	Actions should be taken according to the financial regulations.

## 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. 29,996,608 as compared with excess of revenue over recurrent expenditure amounted to Rs. 27,480,454 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 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	100,000	-	-	-	100,000	-	-	-
(ii) Rent	7,573,451	6,813,459	6,719,152	94,307	5,971,162	5,397,009	5,273,252	123,757
(iii) License Fees	1,399,400	985,472	985,472	-	1,599,100	2,134,720	2,134,720	-
(iv) Other revenue	50,185,104	53,868,645	49,826,645	4,042,000	28,272,475	40,840,758	37,165,945	3,674,813
	<u>59,257,955</u>	<u>61,667,576</u>	<u>57,531,269</u>	<u>4,136,307</u>	<u>35,942,737</u>	<u>48,372,487</u>	<u>44,573,917</u>	<u>3,798,570</u>

### 2.2.2 Performance in Revenue Collection

#### Audit Observation

38 tenants of properties owned by the council under the Pulopala sub-office had been built permanent buildings and run businesses on those lands. For that, apart from charging a total of Rs. 42,242 monthly for more than 10 years, actions had not been taken to assess the value of the property and collect rent formally.

#### Comment of the Sabha

That actions have been taken to assess, lease long term and renew contracts.

#### Recommendation

Actions should be taken to assess the property and collect the ground rent properly.

## 3. Operational Review

### 3.1 Management Inefficiencies

#### Audit Observations

- (a) The Ayurveda building, which was partially completed at a cost of Rs. 1,439,759 from the Corporate Social Responsibility (CSR) fund in the year 2021, had been damaged.

#### Comment of the Sabhas

That the future financial allocations will be taken into consideration and to be completed.

#### Recommendations

The projects should be completed and put into use in stipulated time.

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| (b) | Rs. 200,000 worth of subsistence allowance which were payable 02 beneficiaries had been idly held in the general deposit account without make payment to them.                | That further actions are being taken.                        | Actions should be taken to provide subsidies to the beneficiaries.              |
| (c) | Rs. 6,585,864 provisions for the construction of the toilet system and the fence in Palai Market had been remained idle in the general deposit account for the last 7 months. | That the relevant actions are to be taken to start the work. | Actions should be taken to implement the projects within the stipulated period. |

### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Agreements related to 36 land leases which had to be renewed once in 03 years, had been given for rent for a period of 01 to 08 years continuously without being renewed again.	That action will be taken.	Effective Actions should be taken to renew the rental agreements at regular intervals.

### 3.3 Assets Management

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The council had not been transferred the ownership of 04 vehicles and 32 lands spread over 43.55 acres which were used for more than 05 years.	That actions are being taken.	Actions should be taken to take over by the council.