

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nallur 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 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 Nallur 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

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 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 Sub 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 Requirements

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- 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.
- 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	Comment of the Sabhas	Recommendations
(a) Seven development works completed at a cost of Rs. 3,953,398 had not been recognized as fixed assets.	That corrective action will be taken in the final account report of the year 2024.	Accounts should be properly prepared.
(b) The value of 19 vehicles owned and used by the Sabha had not been assessed and accounted for even as at the end of the year under review.	The value will be accounted for after receiving the valuation reports.	-Do-
(c) The balance of consumer goods amounting to Rs.4,788,741 as at 31 December 2023 which should be shown in the financial statements as a current asset had been charged against the profit for the year.	It will be shown as stock in the future.	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Sabha	Recommendation
Difference of Rs. 25,595,011 in revenue debtor account balance, fixed deposit balance made from the Sabha's fund and cash balance for more than 03 years had not been reconciled.	The reasons for the difference are inquired and adjustments are being made through journal entries.	The balances in the financial statements should be reconciled with the relevant source documents.

1.7 Non-compliances

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

Reference to Laws, Rules and Regulation	Non-compliance	Comment of the Sabha	Recommendation
Section 134 of the Pradeshiya Sabhas Act No. 15 of 1987	K form had not been issued for 3,234 properties out of 22,368 properties that are to be rocovered assessment tax by the Sabha in the year under review.	That due to the difficulties in finding the property owners.	Action should be taken according to the provisions of the Act.

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. 181,776,258 as compared with the excess of revenue over recurrent expenditure amounted to Rs.159,759,495 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 presented 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	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.
Rates and Taxes	21,051,000	22,665,340	17,530,697	38,235,707	21,053,000	21,381,614	14,239,838	33,101,064
Rent	39,353,900	43,086,362	42,951,326	1,070,289	41,594,406	38,077,729	37,887,113	935,254
License Fees	5,549,500	8,388,371	8,433,371	-	6,249,000	5,920,125	5,965,125	45,000
Other revenue	98,693,000	168,981,020	168,981,020	3,875,162	230,825,451	151,266,678	150,845,045	3,875,162
Total	<u>164,647,400</u>	<u>243,121,093</u>	<u>237,896,414</u>	<u>43,181,158</u>	<u>299,721,857</u>	<u>216,646,146</u>	<u>208,937,121</u>	<u>37,956,480</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Sabha	Recommendation
As at the end of the year under review, a balance of Rs.38,235,707 had to be collected from 16,698 land owners and the outstanding balance of more than one year was Rs.25,810,895. Also, the balance of rent and lease for more than 07 years was Rs. 691,489 and the balance of stamp duty receivable to the Sabha which was more than 06 years was Rs. 3,875,162.	Actions are being taken to recover. Also, although public auctions were called, bids were not submitted. Also, actions are being taken to write off.	Actions should be taken to recover arrears of revenue promptly.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observations	Comment of the Sabhas	Recommendations
(a) Twelve development work schemes worth Rs. 97,840,312 implemented by the Sabha's development reserve funds between 01 year and 06 years had been abandoned midway.	Work schemes will be implemented or alternative measures will be taken.	Actions should be taken to carry out the relevant development works within the stipulated time frame.
(b) In the year under review, the Sabha had lost a revenue of Rs. 3,004,759 due to non-renting of 03 stalls owned by the Sabha.	Bids had been called for by reducing the initial value but no one came forward.	Actions should be taken to fully utilize the income sources of the Sabha.
(c) Although the long-term lease agreements of 08 stalls were to be renewed once in 03 years, the agreements which had been delayed for a period of 02 years to 18 years had been continued without renewal.	Agreements could not be renewed due to owners not being available or contactable.	Actions should be taken to renew the tenancy agreements at regular intervals.

3.2 Assets Management

Audit Observation

Seventeen lands totalling Rs.53,450,000 included in fixed assets in the financial statements had not been owned by the Sabha.

Comment of the Sabha

Action had been taken to acquire.

Recommendation

The ownership of the assets should be settled.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

Due to the fact that there were variations from 51 per cent to 135 per cent in 04 revenue items, from 12 per cent to 93 per cent in 06 expenditure items and 22 per cent in one capital expenditure items when comparing the estimated revenue and expenditure with the actual revenue and expenditure according to the budget prepared for the year under review. Thus, the budget had not been used as an effective management control tool.

Comment of the Sabha

Those deficiencies will be rectified in the future and an effective budget will be prepared.

Recommendation

Needs should be identified and the budget should be prepared carefully.

4.2 Environmental Issue

Audit Observation

For the last 02 years, appropriate measures had not been taken to control mosquito breeding in the area selected for disposal of solid waste by spraying mosquito oil and removing the odor.

Comment of the Sabha

It will be done in the future.

Recommendation

Garbage should be disposed of in an eco friendly manner.