

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Vadamaradchy South West 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 financial statements give a true and fair view of the financial position of the Vadamaradchy South West 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 except for observation 1.6.1 (a) of my report 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) Total value of 06 completed development works and a plant and machineries amounting to Rs.11,126,909 had not been recognized as fixed assets.	It will be corrected in the final accounts of 2024.	Accounts should be properly prepared.
(b) 04 types of furniture and 06 types of library books of Rs. 601,107 received as donations had not been accounted for.	Further action is being taken.	-Do-
(c) The total value of 02 machines and equipment and 02 types of furniture and fixtures had been overstated by Rs.1,519,421 and the value of one furniture had been understated by Rs.33,416. in the financial statements.	It will be corrected in the final accounts of 2024.	Financial statements should be prepared accurately.

1.6.2 Documentary Evidences not made available for Audit

Audit Observations	Comment of the Sabhas	Recommendations
Written evidence related to Rs.268,029 payable to the Local Development Fund had not been submitted.	That inquiries will be made and action taken on how to disclose the balance.	Evidence required for audit should be submitted.

1.7 Non-compliances

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

Reference to Laws, Rules and Regulations	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 6,082 properties out of 12,512 properties that are to be rocovered assessment tax by the Sabha in the year under review.	Schedule is currently being prepared for reassessment of properties.	Actions 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. 130,546,233 as compared with the excess of revenue over recurrent expenditure amounted to Rs.110,052,225 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	9,221,010	11,289,511	9,674,731	13,347,505	12,083,340	11,934,468	2,872,021	11,732,725
Rent	28,759,252	36,868,612	37,006,993	109,717	30,614,183	25,664,972	25,649,824	248,098
License Fees	3,431,772	3,888,539	3,888,539	-	-	2,541,082	2,553,082	-
Other revenue	116,069,929	116,697,678	120,314,212	44,213	59,872,559	97,247,836	91,949,511	3,660,747
Total	157,481,963	168,744,340	170,884,475	13,501,435	104,845,082	134,388,358	123,024,438	15,641,570

2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Sabha	Recommendation
Arrears of assessment tax of Rs. 13,347,505 had not been recovered for more than 01 year to 10 years. Also, lease of beef market of Rs. 74,225 has to be received for more than 10 years.	Actions have been taken to collect arrears of assessment tax through revenue collection officers and mobile services and to collect arrears of market lease.	The arrears of revenue should be recovered immediately.

3. Operating Review

3.1 Management Inefficiency

Audit Observation	Comment of the Sabha	Recommendation
The long-term lease agreements of 32 stalls which have to be renewed every 03 to 05 years had not been renewed for the last 02 to 08 years.	It has been sent to the District Valuation Department for revaluation.	Actions should be taken to renew the tenancy agreements at regular intervals.

3.2 Assets Management

Audit Observations	Comment of the Sabhas	Recommendations
(a) The ownership of 15 lands and 02 vehicles which were being used by the Sabha had not been transferred to the Sabha till the end of the year under review.	The ownership will be transferred after the receipt of the registration book.	Ownership of assets should be settled.

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| (b) | In the year 2014, the Mudalaikuli drinking water supply scheme which had been completed at a cost of Rs.2,999,723 had not been implemented even as at the end of the year under review. | Actions will be taken to implement this scheme in the future. | There should be sufficient utilization for the money spent. |
| (c) | Three stalls built at a cost of Rs.5,672,544 in Sanda Market for the purpose of lease out on long-term basis, 04 stalls located in Nelliadi New Market Shopping Complex and 03 stalls located in Nelliadi Central Market are still unused. | Bids had been invited for the renting out of stalls on several occasions but no one came forward. | Actions should be taken to fully utilize the income sources of the Sabha. |

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

As per the budget prepared for the year under review, there was a variation from 13 to 34 per cent in 03 revenue items, from 16 per cent to 54 per cent in 07 expenditure items and 60 per cent in one capital expenditure when comparing the estimated revenue and expenditure and the actual revenue and expenditure. 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.