

Valikamam South West Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam 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 Valikamam 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 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) Capital works of Rs.20,846,102 carried out in the year 2019 and lands purchased for Rs. 3,149,000 had not been accounted for as a fixed asset.	Those works will be included as assets through journal entries.	Accounts should be prepared correctly.
(b) Stocks of the store of Rs.6,243,002 and electrical equipment stocks of Rs.1,623,651 as at the end of the year under review had been shown as recurrent expenditure instead of being shown as current assets.	Store stock account will be included in current assets in the future.	The financial statements should be prepared accurately.

1.7 Non-compliances

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 21,295 properties out of 25,785 properties that are to be recovered assessment tax by the Sabha in the year under review.	Action will be taken to issue K form from the year 2024.	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. 97,621,746 as compared with the excess of revenue over recurrent expenditure amounted to Rs.73,962,394 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	10,213,826	13,059,157	8,280,532	33,037,438	7,880,549	9,302,068	8,070,278	28,258,813
Rent	20,838,015	20,810,023	20,888,141	544,328	13,533,622	16,121,507	16,059,055	622,446
License Fees	5,163,150	5,109,650	5,109,650	-	3,700,800	4,422,387	4,422,387	-
Other revenue	127,448,545	117,743,897	102,238,867	15,661,165	74,384,267	90,508,153	90,596,068	156,135
Total	<u>163,663,536</u>	<u>156,722,727</u>	<u>136,517,190</u>	<u>49,242,931</u>	<u>99,499,238</u>	<u>120,354,115</u>	<u>119,147,788</u>	<u>29,037,394</u>

2.2.2 Performance in Revenue Collection

Audit Observation

As at the end of the year under review, the arrears of assessment tax amounting to Rs.33,037,438 and the rent arrears of more than one year amounting to Rs.544,599 had not been recovered.

Comment of the Sabha

Red notices have been issued for collection of arrears of assessment tax and further actions are being taken regarding arrears of rent.

Recommendation

The arrears of revenue should be recovered immediately.

3. Operating Review

3.1 Assets Management

Audit Observations	Comment of the Sabhas	Recommendations
(a) Actions had not been taken to transfer ownership of 04 properties of the Sabha and 13 lands where cemeteries are located to the Sabha and to assess the value and include them in fixed assets.	Actions have been taken to acquire the properties.	The ownership of assets should be settled.
(b) In the year 2019, the bathroom equipped with modern facilities completed at a cost of Rs. 8,026,190 remained unused for 04 years.	Bids were invited but no contractor has submitted bids for a long time.	Assets should not be left unused.
(c) Ten stalls built in 2017 for the purpose of lease out on long-term basis by the Sabha had not been awarded by calling for bids and had not been used for any purpose till now.	The Sabha has called for bids for the upper floor stalls in Manippai market stall complex on several occasions but it could not be utilized as no one came forward.	-Do-
(d) The multi-chopper machine which was received as a donation in the year 2022 remained unused till now.	Answers had not been given.	-Do-

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
As per the budget prepared for the year under review, there was a variation up to 24 per cent in 01 revenue item, from 15 per cent to 48 per cent in 06 expenditure items and 25 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.	Action will be taken from the year 2024.	Needs should be identified and the budget should be prepared carefully.