

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam South 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 Valikamam South 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) Three work shemes carried out and goods purchased in the year under review at a cost of Rs.5,019,809 had not been accounted as fixed assets. | It will be shown as fixed assets in the financial statements of the year 2024 through journal entries. | Financial statements should be prepared accurately. |
| (b) Four work schemes completed at a cost of Rs. 903,912 through funds of the Local Development Support Project had not been capitalized. | It will be corrected in the next financial year. | -Do- |

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 10,166 properties out of 27,590 properties that are to be rocovered assessment tax by the Sabha in the year under review. | Action will be taken to issue K form in the 4th quarter of 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. 163,912,410 as compared with the excess of revenue over recurrent expenditure amounted to Rs.129,417,066 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 | 15,323,900 | 15,526,018 | 13,900,944 | 28,910,300 | 15,460,000 | 13,682,074 | 17,696,474 | 27,285,226 |
| Rent | 54,902,600 | 59,906,350 | 60,502,711 | 315,590 | 56,801,600 | 53,317,529 | 53,125,383 | 911,951 |
| License Fees | 3,149,000 | 4,326,860 | 4,326,860 | - | 2,945,000 | 3,307,303 | 3,307,303 | - |
| Other revenue | 68,562,000 | 127,447,356 | | 14,308,448 | | | | |
| | | | <u>127,856,650</u> | | <u>45,387,000</u> | <u>96,305,940</u> | <u>96,305,940</u> | <u>14,717,742</u> |
| Total | <u>141,937,500</u> | <u>207,206,584</u> | <u>206,587,165</u> | <u>43,534,338</u> | <u>120,593,600</u> | <u>166,612,846</u> | <u>170,435,100</u> | <u>42,914,919</u> |

2.2.2 Performance in Revenue Collection

Audit Observation

Arrears of assessment tax of Rs. 26,649,167 which was for the period from 01 year to 05 years and outstanding lease balances of Rs. 4,714,423 which were more than 02 years had not been recovered. Also, there was an outstanding stamp duty balance of Rs. 7,951,852 which was more than 10 years.

Comment of the Sabha

A mobile service has been implemented to collect assessment tax and actions will be taken to collect arrears of rent and stamp duty.

Recommendation

Arrears of revenue should be recovered promptly.

3. Operating Review

3.1 Operating Inefficiencies

| Audit Observations | Comment of the Sabhas | Recommendations |
|---|---|--|
| (a) Due to the failure to carry out the annual assessment of 8,401 properties which were within the authority area of the Earlalai Sub Office of the Sabha, the rates and taxes receivable could not be calculated and collected. | It has been sent to the Valuation Department for revaluation of properties. After the approved assessment, rates and taxes will be recovered. | Actions should be taken to assess the properties and recover rates and taxes promptly. |
| (b) Revenue loss of Rs. 713,820 had incurred due to idleness of 05 shops of the Sabha in the year under review despite calling bids. | These shop premises had not been leased out as no one has submitted bids despite calling for bids, re-calling for bids and calling for public bids. | Bid values should be revised or actions should be taken to lease out the stalls. |

3.2 Assets Management

| Audit Observations | Comment of the Sabhas | Recommendations |
|---|--|---|
| (a) Effective measures had not been taken to transfer ownership of the lands where 03 cemeteries which were located and one water tank of the Sabha in the name of the Sabha and assess its value and show it in fixed assets till now. | The value of 03 lands will be assessed and accounted for. | Ownership of assets should be taken over and entered into the accounts. |
| (b) The plastic crushing machine in the solid waste center which was donated to the Sabha remained unused for more than 05 years. | Actions will be taken according to the report of the Board of Survey of the year 2024. | Assets should be used for intended purposes. |

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 from 33 per cent to 103 per cent in 03 revenue items and from 28 per cent to 88 per cent in 08 expenditure items 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. |