

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Aranayake Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 Subsection 172 (1) of the Pradeshiya Sabhas Act No. 15 of 1987 and provisions of the 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 Aranayake 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 Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Standards, 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 exercise 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 the Pradeshiya Sabha's 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 Pradeshiya Sabha;
- Whether the Pradeshiya Sabha 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 includes specific provisions for 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 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 Observation	Comments of the Council	Recommendation
(a) As per the fixed assets register and inventory register, the balance of the plant and machinery had been understated by Rs.19,111,148 in the financial statements.	It will be rectified in the year 2024.	Must be accurately accounted.
(b) According to the goods survey, the balance of the book value of Ussapitiya and Aranayake public libraries had been overstated by Rs. 109,993 in the financial statements.	Action will be taken to check the acquisition documents and it will be rectified in the future.	-Do-

1.6.2 Unreconciled Control Account

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 6,190,443 between the balance according to the financial statements of 05 accounting subjects and according to the corresponding reports related to that.	Since they are old balances, the difference cannot be found.	Unreconciliation should be reconciled.

1.6.3 Written Evidence not made Available for Audit

Audit Observation	Comments of the Council	Recommendation
Schedules had not been submitted for non-current assets totaling to Rs.27,670,079.	It will be rectified in the year 2024.	Written evidence must be submitted.

1.7 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulations 571	Forty four (44) unsettled deposits that had exceeded 02 years and amounting to Rs.700,020 had not been taken to income.	Necessary action is being taken for this purpose.	Action should be taken according to the Financial Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue of the Council that had exceeded the recurrent expenditure for the year ended 31 December in the year under review had been Rs.22,255,358 and in corresponding to that, revenue of the Council that had exceeded the recurrent expenditure in the previous year had been Rs. 3,733,416.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue Arrears

According to the information presented by the Secretary of the Council, the information related to the estimated revenue, billed revenue, collected revenue and revenue arrears related to the year under review and to the previous year are mentioned below.

Revenue Source	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	2,380,628	2,326,003	2,800,541	247,236	2,478,270	2,787,555	2,665,911	326,136
Rents	6,674,950	1,416,940	3,198,482	3,000	4,632,500	3,376,427	3,375,962	147,441
License Charges	773,170	1,113,111	967,852	111,490	408,564	560,910	554,910	9,000
Other Revenue	<u>87,165,382</u>	<u>4,348,330</u>	<u>5,247,056</u>	<u>44,939</u>	<u>3,101,200</u>	<u>4,483,650</u>	<u>3,707,597</u>	<u>61,904</u>
Total	<u>96,994,130</u>	<u>9,204,384</u>	<u>12,213,931</u>	<u>406,664</u>	<u>10,620,534</u>	<u>11,208,542</u>	<u>6,600,491</u>	<u>544,481</u>

2.2.2 Performance in the Collection of Revenue

Audit Observation	Comments of the Council	Recommendation
Even though 419 businesses had been identified in the year 2023 according to the business survey, taxes had been received from 1314 institutions according to the business tax register. Accordingly, the accuracy of the business survey was questionable as 895 business units had not been identified.	Action will be taken to avoid the said shortcomings in the future.	Action should be taken to survey businesses accurately and to levy taxes.

3. Operational Review

3.1 Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
Due to public protests, the compost yard had not been constructed on the selected land. Instead, the garbage had been dumped on a private land acquired on the basis of an annual tax of Rs.1,076,500. Even though a sum of Rs.8,395,458 had been spent on waste management in the year 2023, fertilizer had not been produced from the waste.	It was not possible to dispose of the garbage due to the public protests. The construction could not be carried out as the indenture of lease had not been registered and the assembled polythene will be brailed.	Waste management should be carried out systematically.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Seven hundred and sixty four (764) street lights had been installed without obtaining the necessary approval according to the instructions of the Secretary of the Ministry of Power and Energy.	Action will be taken according to the instructions of the Ministry.	Action should be taken according to the relevant instructions.
(b) Even though more than a year has passed since the finalization of the construction work of Dippitiya public market complex, it was not opened due to non-availability of electricity.	The reason for the delay for opening of the public market complex is non-availability of electricity.	Assets should not be left unutilized.

3.3 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
There had been 13 vacancies, out of the approved cadre of 77, and there had been an excess of 10. Apart from that, 10 posts had been approved on the basis of service agreements and personal to holder basis.	It is not possible to approve new staff or make new recruitments according to the provisions of the Management Service Circular.	Arrangements should be made to fill the vacancies of employees.

3.4 Asset Management

Audit Observation	Comments of the Council	Recommendation
(a) The ownership of a tractor and a trailer costed at Rs. 426,128, and not been owned by the Council had not been transferred.	The tractor and trailer in dilapidated condition will be auctioned after obtaining the registered ownership.	Assets should not be left unutilized.
(b) Four (04) vehicles worth Rs. 9,310,730 and 03 trailers owned by the Council remained unutilized from the years of 2018, 2019 and 2021.	Recommendation has been made to dispose of a trailer and the 03 remaining vehicles and 02 trailers will be repaired and utilized.	-Do-
(c) The ownership of 23 cemeteries in extent of 18 acres and 18.82 perches and belonging to the Council had not been transferred, valued and the value had not been accounted. The boundaries of the cemeteries had not been safeguarded and By-Laws had not been enacted to regulate the activities of the cemeteries. Moreover, valuable trees in 22 cemeteries had not been identified and documented.	The assets have been forwarded to the Government Valuation Department for valuation and the fence boundaries will be settled and the cemeteries will be gazetted in the future and the valuable trees in the cemeteries will be documented.	Action should be taken to safeguard assets and account them.