

## **Vadamaradchy South West Pradeshiya Sabha - 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Vadamaradchy South West Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the 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 Vadamaradchy South West Pradeshiya Sabha as at 31 December 2024, 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 Practices, 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 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.

- (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**

| <b>Audit Observation</b>                                                                                                                                                 | <b>Comments of the Council</b>                                                 | <b>Recommendation</b>                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------|
| (a) ASolar panels installed at a cost of Rs.17,753,268 during the year under review had been stated as Rs.5,175,000 in the financial statements.                         | Steps will be taken to include in the assets of the 2024 financial statements. | Financial statements should be prepared properly.  |
| (b) The nameplate and monitoring tools installed at a cost of Rs. 2,198,387 during the year under review were not disclosed in the financial statements.                 | -Do-                                                                           | -Do-                                               |
| (c) The value of the Santa Meat Market, which was completed at a cost of Rs.1,077,546 in the year under review, had not been capitalized.                                | -Do-                                                                           | Financial statements should be prepared correctly. |
| (d) The council's office electricity expenses of Rs. 231,449 and solar energy electricity sales income of Rs. 53,124 had not been disclosed in the financial statements. | -Do-                                                                           | Financial statements should be prepared correctly. |

### **1.6.2 Documentary Evidences not made available for Audit**

| <b>Audit Observation</b>                                                                                                                                                                            | <b>Comments of the Council</b>                                                               | <b>Recommendation</b>                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| Outstanding rates as at December 31 of the year under review valued at Rs.13,347,505 could not be satisfactorily verified due to non-submission of relevant documents, schedules, and age analyses. | There was no age analysis to determine which year the outstanding property taxes related to. | Documents, schedules, and age analyses should be prepared and submitted to the audit. |

## **1.7 Non- Compliances**

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

| <b>Reference to Laws, Rules Regulations etc.</b> | <b>Non-compliance</b>                                                                  | <b>Comments of the Council</b>             | <b>Recommendation</b>                                          |
|--------------------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------|----------------------------------------------------------------|
| (a) Section 134 of the Pradeshiya Sabha          | K form had not been issued for 2,373 properties out of 7,189 properties that are to be | Unable to complete due to staff vacancies. | Action should be taken according to the provisions of the Act. |

|                                                                                                                                                                           |                                                                                                                                                                                                                                                           |                                                                                                 |                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Act No. 15 of 1987                                                                                                                                                        | recovered assessment tax by the Sabha in the year under review.                                                                                                                                                                                           |                                                                                                 |                                                                                                            |
| (b) Financial Regulations 571(1), (2) and (3)                                                                                                                             | Steps had not been taken to regulate deposits of Rs.348,629 that were overdue for more than 02 years.                                                                                                                                                     | Adjustments will be made after approval.                                                        | Financial regulations should be followed.                                                                  |
| (c) Special Regulations Concerning Local Government Institutions, No. 48 of 1971                                                                                          | Although immovable properties within the municipal area should be assessed once every five years for the purpose of levying assessment tax, the Uduppitti Sub-office had levied assessment tax based on 5,307 assessment units assessed in the year 1965. | Further steps will be taken to revalue the property once the reassessment process is completed. | Action should be taken according to the provisions of the Act.                                             |
| (d) Section 11 of Part I of the Gazette Extraordinary No. 2235/54 dated 08 July 2021 of the Urban Development Authority of the Democratic Socialist Republic of Sri Lanka | Steps had not been taken to recover extension fees amounting to Rs.1,835,000 for 265 buildings that had not obtained certificates of conformity.                                                                                                          | Corrective action is being taken.                                                               | Action should be taken to recover fees for extension of time in accordance with 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 2024 amounted to Rs.125,787,943 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 130,546,233 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 submitted by the Secretary 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 | 2024               |                    |                    |                           | 2023               |                    |                    |                           |
|-------------------|--------------------|--------------------|--------------------|---------------------------|--------------------|--------------------|--------------------|---------------------------|
|                   | Estimated Revenue  | Revenue Billed     | Revenue Collected  | Arrears as at 31 December | Estimated Income   | Revenue Billed     | Revenue Collected  | Arrears as at 31 December |
|                   | Rs.                | Rs.                | Rs.                | Rs.                       | Rs.                | Rs.                | Rs.                | Rs.                       |
| Rates and Taxes   | 9,414,111          | 23,420,364         | 7,990,970          | 15,429,394                | 9,221,010          | 23,022,236         | 9,674,731          | 13,347,505                |
| Rent              | 33,149,241         | 32,084,000         | 31,934,033         | 149,967                   | 28,759,252         | 37,116,411         | 37,006,694         | 109,717                   |
| Licence Fees      | 3,710,155          | 4,011,252          | 4,011,252          | -                         | 3,431,772          | 3,888,539          | 3,888,539          | -                         |
| Other Revenue     | <u>100,717,829</u> | <u>127,950,617</u> | <u>126,396,427</u> | <u>973,190</u>            | <u>116,069,929</u> | <u>116,747,255</u> | <u>116,703,042</u> | <u>44,213</u>             |
| <b>Total</b>      | <u>146,991,336</u> | <u>187,425,233</u> | <u>170,332,687</u> | <u>16,582,277</u>         | <u>157,481,963</u> | <u>180,774,441</u> | <u>167,273,000</u> | <u>13,501,435</u>         |

### 2.2.2 Performance in Revenue Collection

| Audit Observation                                                                                                                                                                                                                                                                                                                                                                                | Comments of the council                                                                                            | Recommendation                                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| The outstanding assessment and tax balance as at the end of the year under review was Rs.15,429,394, out of which there was a balance of Rs.13,267,587 relating to 4,370 properties for a period of 01 to 05 years and a balance of Rs.2,161,807 for more than 05 years. In addition, the meat stall rent of Rs.74,225 due from the Gavamaskada market had not been recovered for over 10 years. | Action will be taken to recover the outstanding balance of current year through collection officers and waive off. | Appropriate action should be taken to promptly recover the outstanding balances. |

## 3. Operational Review

### 3.1 Management Inefficiencies

| Audit Observation                                                                                                                                                                                                                                                                    | Comments of the Council                                                | Recommendation                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Steps had not been taken to implement 04 renovation projects estimated at a total cost of Rs. 14,976,687, which were planned to be implemented in the year under review and previous years by utilizing the development funds of the Sabha, by the end of the year under review. | Project activities will be properly implemented in the future.         | Action should be taken to implement the planned activities within the specified time frames.                                                        |
| (b) The machinery purchased in the year 2016 for Rs.2,208,000 for the purpose of recycling plastic materials under the Provincial Specific Development Grants was given to a single person for a monthly rent of Rs.20,000 without taking steps to use it for the relevant purposes. | The collected plastic waste is not sufficient to operate this machine. | Relevant provincial council grants should be obtained for achievable objectives and steps should be taken to provide them to other local government |

|                                                                                                                                                                                                            |                                                      |                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                            |                                                      | institutions in need for relevant objectives.                                                                                      |
| (c) Approximately Rs.183,000 in revenue was lost due to non-renting of 04 shop rooms.                                                                                                                      | Steps have been taken to call for bids again.        | Steps should be taken to maintain revenue sources efficiently.                                                                     |
| (d) A sum of Rs.1,250,000 had been paid to the Sabha to obtain a parking space for a private shopping complex, but no steps had been taken to provide it for a period of 2 years.                          | Steps are to be taken to provide parking spaces      | Steps should be taken to provide parking spaces.                                                                                   |
| (e) Out of 314 street lamps purchased for Rs.2,620,755 during the year under review, 254 bulbs remained unused in the Sabha store, and their warranty period had also expired.                             | Actions are being taken to install the street lamps. | Steps should be taken to fully utilize the assets and losses should be recovered from the officials responsible for the purchases. |
| (f) The long-term lease agreement of the Electricity Sub-Office, which was to be renewed every 5 years, has been in force for 55 consecutive years without renewal from the date the agreement was signed. | Steps are to be taken to renew the lease agreement.  | Appropriate steps should be taken to renew lease agreements within the prescribed time frame.                                      |

### 3.2 Operational Inefficiencies

| Audit Observation                                                                                                                                                                                                                                                                                                                                                             | Comments of the Council              | Recommendation                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------|
| Although a Certificate of Conformity (COC) should be issued to confirm whether buildings have been constructed in accordance with Section 15(1) of the Housing Construction and Urban Development Ordinance No. 15 of 1915, Certificates of Conformity had not been issued for 500 development permits granted for building construction by the end of the year under review. | Action is being taken to provide it. | Steps should be taken to issue a Certificate of Conformity. |

### 3.3 Assets Management

| Audit Observation                                                                                                                              | Comments of the Council                          | Recommendation                    |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|-----------------------------------|
| (a) The tractor, which has been in an unusable condition for 5 years, was neither repaired for reuse nor steps taken to sell it at an auction. | Steps have been taken to repair/sell at auction. | Assets should not be left unused. |

|                                                                                                                                                                                                                                |                                                               |                                                                                                                                                                                                                                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (b) 15 lands and 02 vehicles used by the Ssbha had not been taken over by the Sabha by the end of the year under review.                                                                                                       | Steps are being taken to take over.                           | Action should be taken to take over ownership of the assets.<br>Relevant provincial council grants should be obtained for achievable objectives and steps should be taken to provide them to other local government institutions in need for relevant objectives. |
| (c) The operations to distribute drinking water to the people through the Mudalaikuli Drinking Water Scheme, which was completed in 2014 at a cost of Rs.2,999,723, had not been operated by the end of the year under review. | Action will be taken to implement this project in the future. | The drinking water distribution operation should be implemented quickly and benefit the people.                                                                                                                                                                   |

### 3.4 Human Resources Management

| Audit Observation                                                                                                                                            | Comments of the Council         | Recommendation                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------|
| Steps had not been taken to recover Rs.272,000 due for a period of 01 to 06 years in respect of distress and other loans given to 04 officers of the Sabha.. | Steps will be taken to recover. | Steps should be taken to recover the loan. |

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

| Audit Observation                                                                                                                                                                                                                                                                                                                                                                                                                 | Comments of the Council                                                                                  | Recommendation                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Due to the fact that there were variations from 9 percent to 29 percent in 05 revenue items, from 14 percent to 36 percent in 08 expenditure items and 17 percent 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, the budget had not been used as an effective management control tool. | There were variations due to the difference between the budget prepared last year and the actual budget. | The budget should be carefully prepared by identifying needs and using it as an effective management control tool. |