

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam 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 Valikamam 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

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The estimated cost of Rs.19,349,813 related to 07 unfinished construction activities and purchases for which learning equipment had not been received had been recorded as creditors.	Action will be taken to disclose this in the financial statements for the year 2025.	Accounting should be done correctly.
(b)	The value of 14 lands used by the Sabha had not been assessed and accounted for by the end of the year under review.	Actions are being carried out to assess.	-Do-
(c)	Stocks of the store of Rs.5,616,055 as at the end of the year under review had been shown as recurrent expenditure instead of being shown as current assets.	It is included in current assets as stocks.	Financial statements must be prepared accurately.
(d)	Solar energy electricity sales revenue of Rs.289,336 and the council's office electricity expenses of Rs.91,938 were not disclosed in the financial statements.	Steps will be taken to include it in the relevant accounts.	Accounting must be done correctly.
(e)	The market renovation costs incurred at a cost of Rs.314,520 had been accounted for as capital expenditure.	That it was added as capital expenditure by mistake.	-Do-

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
The audit could not be satisfactorily observed due to the failure to submit documents, schedules and age analyses related to the outstanding assessments amounting to Rs.33,037,438 as on 31 December of the year under review.	It was not possible to obtain a age analysis of arrears by performing property tax operations through the software.	Documents, tables, 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.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) The Pradeshiya Sabha Act No. 15 of 1987			
(i) Sub-section IX (b) of Section 126	Interim by-laws had not been prepared regarding the imposition of charges for sewage disposal and garbage disposal, and fees amounting to Rs.3,497,150 had been charged.	Actions are in progress.	Action should be taken in accordance with the provisions of the Act.
(ii) Section 134	Form K had not been issued 6,735 properties out of 20,688 properties are to be recovered assessment tax by the Sabha in the year under review.	There are problems in identifying the owners. Actions are taken to distribute them.	-Do-
(b) 571(1), (2) and (3) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Steps had not been taken to settle 24 overdue deposits of Rs.118,149 that were more than 02 years.	Steps will be taken to settle overdue deposits.	Actions should be taken according to the Financial Regulations.
(c) Special Regulations Concerning Local Government Institutions, No. 48 of 1971	Although immovable properties within the municipal area were to be assessed once every 5 years for the purpose of levying property tax, the Pandatharippu Sub-office had levied property tax based on the assessment of the year 1974 for 4,476 assessment units.	Further steps will be taken to revalue the property.	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	Steps had not been taken to charge extension fees of Rs.1,980,000 for buildings that had not been obtained certificates of conformity.	Actions are being taken to charge.	Action should be taken to recover fees for extension of time in accordance with

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.112,229,105 as compared with the excess of revenue over recurrent expenditure amounted to Rs.97,621,746 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 Income	2024				2023			
	Revenue Estimated	Billed Revenue	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	11,758,900	52,693,104	14,698,688	37,994,416	10,213,826	41,317,970	8,280,532	33,037,438
Rent	24,108,100	24,901,205	24,149,992	751,213	20,838,015	21,432,469	20,888,141	544,328
License Fees	5,093,700	5,678,226	5,678,226	-	5,163,150	5,109,650	5,109,650	-
Other Revenue	20,896,550	102,071,885	100,094,841	1,977,044	127,448,545	117,900,032	102,238,867	15,661,165
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Total	61,857,250	185,344,420	144,621,747	40,722,673	163,663,536	185,760,121	136,517,190	49,242,931
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2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
Although the property tax billed for the year under review from private properties such as houses, shops and vacant land was Rs.19,655,755, the Sabha had collected only	Owners are in abroad unable to recover arrears for properties. In addition, court fines are returned to the council after a year.	Appropriate actions should be taken to recover outstanding amounts immediately.

Rs.8,026,986 of it. Also, Rs.6,671,702 had been recovered out of the outstanding assessment balance of Rs.33,037,438 in the year under review and the remaining balance belonged to the period between years 05 and 10. In addition, court fines receivable as at 31 December 2024 amounted to Rs.19,522,404.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The Sabha had lost revenue of Rs.351,000 due to the non-award of 04 stalls through bidding in the year under review.	Continuous steps are being taken to utilize these shops.	Action should be taken to maintain revenue sources at an optimum level.
(b) Although a JCB machine received as a donation in 2022 had been valued by the Valuation Department at Rs.3,300,000 and included in the financial statements, it had been stated in the 2023 Annual Board of Survey Report that the machine was sold within five years for the purpose of providing a benefit to a particular individual. A team consisting of a Mechanical Engineer, a Motor Vehicle Examiner, and the Divisional Secretary had revalued the machine at Rs.425,000, and it had been auctioned for Rs.566,000 during the reviewed year. As a result, the Sabha had incurred a loss of Rs.2,734,000.	Explanations are not enough to answer this.	Officers responsible for loss incurred should be identified and appropriate actions should be taken to recover the loss.

3.2 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Steps had not been taken to vested 04 properties of the Sabha and 13 lands where cemeteries are located, assess	Steps have been taken to assess the value and include it in fixed assets.	Action should be taken to take over

their value and include them in fixed assets.

ownership of the assets.

- (b) The Kadatpuram slaughterhouse, built in 2005 at a cost of Rs. 4,085,815, remained unused for over 20 years without any transportation facilities.

Action will be taken.

Actions should be taken to make it usable.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

Due to the fact that there were variations from 22 percent to 57 percent in 08 revenue items, 7 percent in one capital expenditure item 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.

Comments of the Sabha

Answer is not submitted.

Recommendation

The budget should be carefully prepared by identifying needs and using it as an effective management control tool.

4.2 Environmental Observations

Audit Observation

In accordance with the National Environment Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and No. 53 of 2000, and the regulations in force thereunder, actions had not been taken to renew the environmental license of 134 institutions that had expired .

Comments of the Sabha

Expired environmental license will be inspected and action will be taken to renew the license.

Recommendation

Steps should be taken to renew the National Environmental License and the regulations in force thereunder.