

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Navithenveli Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Balance Sheet as at 31 December 2023, 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 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 Navithenveli 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 Practices.

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 Practicals, 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 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 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) An amount of Rs.62,361 was not shown in the financial statements as a liability for electricity bill, fuel allowance, traveling allowance, water bill and railway ticket for the month of December of the year under review.	Action will be taken to correct specific errors in the next year's financial statement.	Action should be taken to adequately disclose liabilities.
(b) At the end of the year under review 06 types of consumables valued at Rs 54,035 were not shown as closing balance in the financial statements.	Consumables purchased before 2023 and shown as ending inventory in the register.	The value of consumables should be shown as closing balance in the financial statements.
(c) During the year under review the fencing system constructed at two places totaling Rs.1,272,122 was shown as recurring expenditure and not as fixed asset in the financial statements.	Steps will be taken to include it while preparing the financial statements for the upcoming financial year.	Action should be taken to rectify.

1.7 Non- Compliances

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

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Section 571(1),(2),(3) of the Financial Regulation of Democratic Socialist Republic of Sri Lanka.	Action had not been taken to transfer the overdue deposits amounting to Rs.696,037 over two years to income account.	Action has been taken to convert to income account.	Action should be taken in respect of overdue deposits as per financial regulations.

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.6,940,497 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 1,632,636 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 Sabha, details 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	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	-	-	-	-	-	-	-	-
ii. Rent Income	4,475,000	3,363,347	3,607,437	1,058,675	4,275,000	3,378,392	3,238,602	1,302,765
iii. License Fees	790,000	874,900	874,900	-	790,000	451,850	451,850	-
iv. Other revenue	3,017,500	1,451,179	1,469,018	19,640	2,757,500	1,144,911	1,120,377	37,479
Total	<u>8,282,500</u>	<u>5,689,426</u>	<u>5,451,355</u>	<u>1,078,315</u>	<u>7,822,500</u>	<u>4,975,153</u>	<u>4,810,829</u>	<u>1,340,244</u>

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the Sabha are as follows.

Audit Observation	Comments of the Council	Recommendation
(a) From the beginning of 2007 to the year of review, no action had been taken to collect the amount of Rs. 997,454 due in respect of rent and lease or to take legal action against the relevant parties.	Steps have been taken to take appropriate legal action.	Steps should be taken to recover the due income promptly.
(b) In the review year, Rs.790,000 was estimated for annual business permits for 700 business establishments, but only Rs.774,900 was collected on 378 business permits.	Actions have been taken to remove the non-functioning shops from the register and to dispose of the balances of other shops with penalty.	Steps should be taken to issue business permits and recover the income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
In the year under review, Rs 6,073,065 was deposited as direct deposit in the bank from July to August, but no action was taken to add it to the income of the council.	Certain deposits are unrecognized direct deposits as they are transferred to income account only after receipt of confirmation letters.	Actions should be taken to identify direct deposits.

3.2 Assets management

Audit Observation	Comments of the Council	Recommendation
(a) Action had not been taken to transfer the ownership of 08 vehicles such as tractor, dual purpose vehicle, tailor and car in the name of other ministries and departments to the name of the council and to calculate its values.	Steps are being taken to change the name of the council.	Steps should be taken to transfer ownership of vehicles to the name of the council.
(b) In the current year, a rice threshing machine was purchased at a cost of Rs.4,543,500 but due to the lack of reconstruction of the relevant building, it has not been utilized so far.	Once funding is available it is decided to renovate the building and use the machines.	Steps should be taken to renovate the building and use the machinery.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation	Comments of the Council	Recommendation
During the year under review, it was observed that 04 business establishments were operating without renewing their environmental licenses.	02nd reminder has been sent to the 04 businesses asking them to renew their license and in case of failure to renew legal action will be taken against them.	Steps should be taken to renew or issue new environmental permits.