

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valvettithurai Urban Council 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 (Chapter 255) Section 181(1) of the Urban Councils Ordinance and Sub-Section 10(1) of the 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 Valvettithurai Urban Council 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 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 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 Urban Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council 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 Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Urban Council 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 Urban Council 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) 04 capital works totaling Rs.27,784,117 had not been capitalized in the year under review and previous years.	Action will be taken to disclose this in the financial statements for the year 2025.	Accounting must be done correctly.
(b) The capital grant of Rs.24,748,357 received by the Council from the Regional Development Assistance Fund in the year under review was not disclosed in the financial statements.	Do	Do
(c) Estimated costs totaling Rs.1,030,107 relating to 02 construction works that had not been completed during the year under review had been recorded as creditors.	Various creditors had been set aside in the account due to non-completion by the end of the year.	Do
(d) The balance of the Local Credit Development Fund of Rs.551,000 had been omitted from the financial statements.	That steps will be taken to adjust.	Do

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
The details of the supplier and the supplier's registration certificate had not been submitted for the value added tax of Rs.898,530.	Letters have been sent to obtain sufficient evidence.	The necessary evidence must be submitted for 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)	Special Provisions on Local Government Institutions, No. 48 of 1971	Although immovable properties located in urban areas were to be assessed once every 5 years for rates and levy of taxes, rates and levy of taxes were based on a total of 6,686 properties assessed in 2017.	Actions are being taken to assess.	Actions should be taken according to the provisions of the Act.
(b)	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 charge extension fees of Rs.135,000 for 22 buildings that had not been obtained certificates of conformity.	Steps will be taken to collect in the future.	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 Council for the year ended 31 December 2024 amounted to Rs. 28,296,536 as compared with the excess of revenue over recurrent expenditure amounted to Rs.20,171,175 in the preceding year.

2.2 Revenue Administration

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

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 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	5,003,704	13,229,409	5,568,334	7,661,075	4,898,304	5,261,643	4,144,863	8,190,121
Rent	8,167,350	7,881,243	7,857,743	23,500	8,021,433	6,706,632	6,730,132	23,500
License Fee	1,033,600	873,455	873,455	-	1,674,800	1,590,700	1,590,700	-
Other Revenue	9,602,665	13,577,419	13,577,419	-	11,839,513	10,123,135	10,123,135	-
Total	23,807,319	35,561,526	27,876,951	7,684,575	26,434,050	23,682,110	22,588,830	8,213,621

2.2.2 Performance in Revenue Collection

Audit Observations	Comments of the Council	Recommendation
Although the property tax billed for private properties such as houses, shops and lands was Rs.5,286,699, only Rs.3,013,590 of it could be collected. Also, out of the outstanding property taxes of Rs.8,190,121 from 3,146 properties at the beginning of the year under review, Rs.2,298,745 had been collected during the year, while the remaining amount was in the range of 02 to 10 years. Receivable stamp duty Rs. 278,837 is 31 December 2024 in more than 09 years.	Steps will be taken to recover and write off arrears of revenue.	Arrears of revenue should be collected without delay.

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendation
(a) Steps had not been taken to utilize Rs.43,153,825 for 16 development projects. which has been remained idle in the development reserve for more than 05 years.	Transferred to the Consolidated Fund without approval.	Funds should be utilized for the intended purposes.
(b) The council had lost an income of Rs.450,000 due to the failure to call for bids for 11 stalls on the upper floor of the Weliwetithurai Public Market in the year under review.	The council had called for bids but no one had come forward.	Steps should be taken to maintain revenue sources at an optimal level.

3.2 Operational Inefficiencies

Audit Observations	Comments of the Council	Recommendation
Although a Certificate of Conformity (COC) should be issued after confirming that buildings have been constructed according to Section 15(1) of the Housing and Town Improvement Ordinance No. 15 of 1915, Certificates of Conformity had not been issued for 55 development permits granted for building construction by the end of the year reviewed.	Notifications have been given to the relevant parties to obtain Certificates of Conformity and steps are being taken to rectify this situation.	Steps should be taken to issue Certificates of Conformity.

3.3 Assets Management

Audit Observations	Comments of the Council	Recommendation
(a) 03 lands, 05 buildings and cemeteries totaling Rs.52,084,471 were included in the fixed assets in the financial statements but they did not belong to the council. However, no steps had been taken to acquire those assets.	Steps are being taken to take over the council.	The process of acquiring ownership of assets should be expedited.
(b) A sum of Rs.2,090,000 had been paid to the owner of the land to acquire the land where the swimming pool is located, but action had not been taken to acquire it for 6 years.	Action has taken to repair.	-Do-
(c) Steps had not been taken to repair and reuse 03 of the council's vehicles and the garbage disposal machine.	Action is taken to repair and sale.	Repair or disposal work should be expedited.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observations	Comments of the Council	Recommendation
Due to the fact that there were variations from 15 percent to 35 percent in 03 revenue items, from 06 percent to 71 percent in 06 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.	Steps will be taken to follow budget control in the future.	The budget should be carefully prepared by identifying needs and using it as an effective management control tool.