

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam North 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 North 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 total cost of 08 capital works carried out in the year under review and the previous year at a cost of Rs.6,408,142 had not been capitalized.	Action will be taken to disclose this in the financial statements for the year 2025.	Capital expenditures should be accurately accounted for.
(b) The estimated cost totalling Rs.59,098,151, relating to 4 ongoing construction projects and 19 purchases of goods not yet received, was recorded as creditors.	-Do-	Financial statements should be properly corrected.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.15,289,281 between the balance of the Development Reserve Allocation Ledger and the balance as per the financial statements on that date.	That is currently included in the document	Balances should be settled and accounts corrected as required.

1.6.3 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.15,661,532 as on 31 December of the year under review.	Action will be taken to implement it in the future.	Documents, schedules and age analysis should be prepared.

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) Section 134 of the Pradeshiya Sabha Act No. 15 of 1987	“K” forms had not been issued for 21,869 properties out of 31943 properties that are to be	Actions are being taken to collect it.	Action should be taken according to the provisions of the Act.

recovered rates and tax by the Sabha in the year under review.

- (b) 110 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Action had not been taken for over 8 years regarding office equipment worth Rs.346,790 which was destroyed in the fire.
The case is pending in the court.
Action should be taken as per Financial Regulations.
- (c) 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.2,585,000 for buildings that had not been obtained certificates of conformity.
Actions are being taken to charge extension fees for buildings that have not obtained certificates of conformity.
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.111,782,123 as compared with the excess of revenue over recurrent expenditure amounted to Rs.85,853,778 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	16,813,746	39,607,437	9,421,772	30,185,665	16,632,500	28,361,735	7,764,630	20,597,105
Rent	9,157,600	10,591,255	10,517,675	73,580	8,144,800	9,695,606	9,692,856	2,750
License Fee	3,377,300	3,282,855	3,269,855	13,000	3,300,000	3,098,626	3,098,626	-
Other Revenue	20,502,900	33,510,657	28,351,526	5,159,131	19,299,900	32,689,148	28,295,675	4,393,473
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Total	49,851,546	86,992,204	51,560,828	35,431,376	47,377,200	73,845,115	48,851,787	24,993,328
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2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the property tax billed for the year under review from private properties such as houses, shops and vacant land was Rs.18,620,292, the Sabha had collected only Rs.4,096,154 of it. Also, Rs.4,935,573 had been recovered out of the outstanding assessment balance of Rs.20,597,105 in the year under review and the remaining Rs.15,661,532 belonged to the period between years 02 and 03.	Actions will be taken to recover the arrears of assessments.	Appropriate actions should be taken to recover outstanding amounts immediately.
(b) Stamp duty receivables amounted to Rs.21,169,746 for a period of 2 to 10 years.	Action will be taken to recover it.	Appropriate actions should be taken to recover outstanding amounts immediately.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The balance of Rs.91,722,824 in fixed deposits during the year under review had been invested in fixed deposit with the intention of earning interest income, instead of being utilized for development activities related to public utility services as specified under Section 108, Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987.	Actions will be taken to utilize it for appropriate purposes after obtaining approval.	Actions should be taken to develop public utility services in accordance with the provisions of the Act.
(b) Development works estimated at Rs.9,700,000, which were planned to be implemented using the funds of the Sabha in the year under review, had not been identified.	Development activities are identified and utilized after selection.	Actions should be taken to complete development activities within the stipulated time frame.

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| <p>(c) The Council had lost revenue of Rs.2,665,875 due to the failure to call for bids for 05 market stalls, 08 meat shops and 04 dry fish shops that were to be tendered annually in the year under review.</p> | <p>Alternative plans are being examined for this.</p> | <p>මුදල් රෙගුලාසි ප්‍රකාරව, කටයුතු කළ යුතුය.</p> |
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3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
Although a Certificate of Conformity (COC) should be issued after confirming that buildings have been constructed according to Section (1)15of the Housing and Town Improvement Ordinance No. 15of 1915, Certificates of Conformity had not been issued for 858 development license granted for building construction by the end of the year reviewed.	Action are taken to correct it.	Actions should be taken to issue a Certificate of Conformity.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) The ownership of 22 public wells, 08 markets, 07 cemeteries, 04 buildings, 04 libraries, 04 playgrounds, 03 bus stands, 02 children parks, 02 water tanks land, a shopping complex and the pond are being used by the Sabha had not been transferred to the Sabha.	Further actions are being carried out.	Action should be taken to settle the ownership of assets.
(b) Although a slaughterhouse and a vehicle park had been constructed at a cost of Rs.6,700,472 in the period from 2014 and 2020, they had not been used for the relevant purposes until now.	Approval had not been received from the Medical Superintendent of Health's office. Further actions are underway.	Actions should be taken to fully utilize the all assets.
(c) Steps had not been taken to repair and reuse a tractor, 04 drinking water tanks, and 03 water pumps for a period exceeding 3 to 5 years.	Actions are currently being taken to repair them.	Assets should not be left unused.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
Due to the fact that there were variations from 15 percent to 142 percent in 03 revenue items, from 11 percent to 100 percent in 04 expenditure items and 21 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.	The fluctuations were due to unexpected income and high expenses.	Needs should be identified and budgeted carefully.