

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam South 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 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) During the year under review, 04 capital projects completed at a cost of Rs.8,334,478 under the Development Reserve Fund of the Sabha had not been capitalized.	That will be disclosed in the 2025 year-end accounts.	Accounts must be prepared correctly.
(b) Solid waste tanks purchased at a cost of Rs.540,000 and 06 billboards installed on roads worth Rs.360,000 had not been added to assets.	It will be disclosed in the financial statements in a prudent manner in the future.	Financial statements should be prepared properly.
(c) The Sabha's office electricity expenses of Rs.263,022 had not been disclosed in the financial statements.	It will be disclosed in the following year's financial statements.	-Do-

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
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.6,870,000 for buildings that had not been 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 Council for the year ended 31 December 2024 amounted to Rs.204,076,085 as compared with the excess of revenue over recurrent expenditure amounted to Rs.163,912,410 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.

		2024				2023			
Source of Income		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		16,631,650	44,115,800	13,160,404	30,955,396	15,323,900	42,811,244	13,900,944	28,910,300
Rent		55,637,600	10,482,890	10,223,550	259,340	54,902,600	60,818,301	60,502,711	315,590
License Fee		7,084,000	4,819,650	4,819,650	-	3,149,000	4,326,860	4,326,860	-
Other Revenue		53,858,611	58,721,968	52,816,904	5,905,064	68,562,000	142,165,098	127,856,650	14,308,448
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Total		133,211,861	118,140,308	81,020,508	37,119,800	141,937,500	250,121,503	206,587,165	43,534,338
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2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
The total amount of old arrears of assessment tax amounting to Rs.23,304,854 from year 01 to more than 08 years and 2 arrears of tax rent amounting to Rs.4,940,665 which was more than 03 years old had not been collected.	Actions are being made to recover the arrears.	Appropriate steps should be taken to recover arrears of revenue immediately,

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The balance of Rs.132,250,000 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 are being taken to fulfill the development allocation activities and the fixed deposits will be settled after the completion of the projects.	Actions should be taken to develop public utility services in accordance with the provisions of the Act.
(b)	Steps had not been taken to initiate 42 capital projects totalling Rs.288 million, which were planned to be implemented using the funds of the Sabha from 2016 to 2023, by the end of the year under review.	Steps will be taken to implement this this year.	Steps should be taken to complete the relevant development activities within the specified time frame.
(c)	The Sabha had lost an annual income of Rs.240,000 due to the non-renting of a shop room located on the upper floor of the Chunnagam Sub-Office Division for over 10 years.	Steps have been taken to invite bids.	Steps should be taken to maintain revenue sources at an optimal level.
(d)	The Sabha had not taken any action against the owners of the shops for subletting 55 shops.	Action will be taken in this regard.	Appropriate action should be taken against the tenants.

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 15(1) of the Housing and Town Improvement Ordinance No.15 of 1915, Certificates of Conformity had not been issued for 779 development license granted for building construction by the end of the year reviewed.	Notifications have been sent to the relevant parties to obtain Certificate of Conformity and steps are being taken to rectify the situation.	Steps should be taken to issue a Certificate of Conformity.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Action had not been taken to acquire the lands on which 02 cemeteries are located that are currently in use by the Sabha till now.	Requests have been submitted to the Divisional Secretary.	Ownership of assets should be clear.
(b) Arrangements had not been made to repair and reuse 03 of the Sabha's vehicles and the garbage disposal machine.	Actions have been taken to repair.	Assets should not be remained idle.

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 12 percent to 69 percent in 06 revenue items, from 11 percent to 42 percent in 06 expenditure items and 17 percent in one capital expenditure item when comparing the estimated revenue and expenditure with the actual revenue	Income and expenditure will be managed effectively and with management control in accordance with the budget in the future.	Needs should be identified and budgeted carefully.

and expenditure according to the budget prepared for the year under review, the budget had not been used as an effective management control tool.

4.2 Environmental Observations

Audit Observation	Comments of the Sabha	Recommendation
Approval had been granted by the Sabha to 91 industrial establishments that were engaged in commercial activities without obtaining trade licenses 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.	They will be issued an environmental permit after receiving a satisfactory report.	Steps should be taken to renew trade licenses in accordance with the National Environment and the regulations in force thereunder.