Valikamam East Pradeshiya Sabha - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valikamam East 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 East 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)	Value of 03 containers amounting to Rs.1,422,793 removed from use in the previous year had not been deducted from the assets.	Actions will be taken to disclose in the financial statements of the year 2025.	Accounts should be properly prepared.
(b)	Three projects completed during the year under review at a cost of Rs.9,430,646 had not been capitalized.	-Do-	-Do-
(c)	An estimated cost of Rs.58,942,107 relating to 20 unfinished constructions and 05 purchases for which goods were not received had been recorded as creditors.	The work has now been completed and payments have been made.	Financial statements should be properly 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 Sabha	Recommendation
(a)	Section 134 of the Pradeshiya Sabha Act No. 15 of 1987	K form had not been issued for 39,570 properties are to be recovered assessment tax by the Sabha in the year under review.	There is a situation where distribution is impossible due to the absence of property owners.	Actions should be taken according to the provisions of the Act.

(b)	571(1), (2) and (3) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Steps had not been taken to settle four overdue deposits of Rs.252,815 that were more than 02 years.	Action will be taken.	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 Kopai and Nirveli Sub-office had levied property tax based on the assessment of the year 1964 for 19,053 assessment units.	Further steps will be taken to revalue the property.	Action should be taken according to 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 Sabha for the year ended 31 December 2024 amounted to Rs.180,214,117 as compared with the excess of revenue over recurrent expenditure amounted to Rs.148,671,751 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.

	2024				2023			
Source of Revenue	**Estimated Revenue**	**Revenue Billed**	**Revenue Collected**	**Arrears as at 31 December**	**Estimated Income**	**Revenue Billed**	**Revenue Collected**	**Arrears as at 31 December**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Rates and Taxes	5,610,500	27,203,438	4,953,862	22,249,576	5,584,500	25,394,728	5,260,384	20,134,344
Rent	45,409,300	37,965,830	37,747,780	218,050	29,124,817	30,451,320	30,043,503	407,817
License Fees	6,362,000	6,489,308	6,454,308	35,000	4,327,600	5,559,369	5,559,369	-
Other Revenue	14,174,000	57,811,258	53,293,083	4,518,175	35,036,375	78,261,100	71,653,983	6,607,117
Total	71,555,800	129,469,834	102,449,033	27,020,801	74,073,292	139,666,517	112,517,239	27,149,278

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
The outstanding rates balance as at the end of the year under review was Rs.21,397,380, out of which Rs.16,412,256 from 39,570 rates properties was a balance between 01 and 10 years, and a balance of Rs.4,985,124 was more than 10 years. Similarly, steps had not been taken to collect the total government tax revenue of Rs.3,486,893 from 02 categories.	Steps will be taken to recover the arrears.	Appropriate actions should be taken to recover outstanding revenues.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The balance of Rs.273,594,932 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.	Fixed deposits made for the implementation of specific programs will be settled after the completion of the tasks.	Steps should be taken to utilize public utility services in development activities.
(b)	Steps had not been taken to complete the renovation work on the Andhirana Cemetery road, which was planned to be carried out using the council's funds and was estimated at Rs.6,580,352 in the year under review.	In the future, steps will be taken to complete the work within that financial year.	Steps should be taken to complete it within the stipulated time frame.
(c)	The Sabha had lost revenue of Rs.224,500 due to the non-award of 04 stalls through bidding in the year under review.	The council called for bids, but no one came forward.	Action should be taken to maintain revenue sources at an optimum level.

(d)	The Sabha had not taken any action against the owners of 10 shops for subletting them.	Action will be taken after discussions with the owners.	Appropriate action should be taken against the shopkeepers.

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 1,027 development permits granted for building construction by the end of the year reviewed.	Action is being taken to issue the Certificate of Conformity	Actions should be taken to issue a Certificate of Conformity.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
Appropriate actions had not been taken to take over the ownership of 39 lands and 02 vehicles used by the Sabha.	Action is being taken to transfer the ownership of the lands and to obtain the vehicle registration books.	The ownership of the assets should be regularized.

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 18 percent to 60 percent in 03 revenue items, from 23 percent to 100 percent in 07 expenditure items and 13 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 matters highlighted by the audit will be taken into consideration and addressed in future preparations.	Needs should be identified and budgeted carefully.

4.2 Environmental Observations

Audit Observation	Comments of the Sabha	Recommendation
Approval had been granted by the Sabha to 44 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.	Action is being taken to issue an environmental protection license.	Action should be taken to renew trade licenses in accordance with the National Environmental Act and the regulations enforced thereunder.