

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Velanei 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 **Velanei 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 observations	Comments of the Sabha	Recommendation
(a)	Two capital projects had been understated in the accounts by a total amount of Rs.9,426,126.	Steps have been taken to correct it.	Accounts should be prepared correctly.
(b)	The capital grants received by the Council from the Regional Development Assistance Fund in the year under review amounting to Rs.45,282,297 were not disclosed in the financial statements.	-Do-	Financial statements should be prepared properly.
(c)	The estimated cost of Rs.6,240,275 relating to 03 unfinished construction works and 04 purchases for which goods had not been received had been recorded as creditors.	-Do-	Accounting should be done correctly.
(d)	The values of 15 vehicles used by the council had not been assessed and accounted for by the end of the year under review.	-Do-	-Do-
(e)	The value of the Kurikattuwan toilet system constructed at a cost of Rs.4,450,016 in the year under review had not been capitalized.	-Do-	-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 recover extension fees amounting to Rs.820,000 for buildings that had not obtained certificates of conformity.	Steps will be taken to correct this 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 Sabha for the year ended 31 December 2024 amounted to Rs.22,841,594 as compared with the excess of revenue over recurrent expenditure amounted to Rs.16,444,791 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	714,300	1,223,790	1,223,790	-	3,871,000	3,945,460	3,945,460	-
Rent	1,073,000	1,056,200	1,033,850	22,350	584,500	894,500	854,600	39,900
License Fees	763,000	1,367,427	1,367,427	-	501,800	1,293,389	1,293,389	-
Other Revenue	12,257,700	9,020,283	9,020,283	-	4,199,700	7,519,298	7,519,298	-
Total	<u>14,808,000</u>	<u>12,667,700</u>	<u>12,645,350</u>	<u>22,350</u>	<u>9,157,000</u>	<u>13,652,647</u>	<u>13,612,747</u>	<u>39,900</u>

2.2.2 Performance in Revenue Collection

Audit observations	Comments of the Sabha	Recommendation
Pursuant to Gazette Notification No. 2132 dated July 12, 2019, 30 Grama Sevak Divisions under the jurisdiction of the Council had been declared as developed areas, but steps had not been taken to subject the properties in those areas to tax assessment and levy assessment tax.	Property tax assessments are being carried out.	Steps should be taken to subject property to tax assessment and levy assessed taxes.

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Sabha	Recommendation
(a) The balance of Rs.45,758,239 in fixed deposits during the year under review had been deposited with the bank for the purpose of earning interest income, without being utilized in development activities related to public utility services as specified under Section 108, Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987.	That the development plans have been put on hold until they are decided.	In accordance with the provisions of the Act, steps should be taken to develop public utility services.
(b) The Council had lost revenue of Rs. 1,792,010 due to the failure to tender for the 18 markets and stalls that the Council annually tenders.	The council had called for bids but no one had come forward.	Steps should be taken to maintain revenue sources at an optimal level.
(c) Two development works estimated at Rs.600,000, which were planned to be carried out from the council's development reserve fund in the year 2023, had not been implemented.	The work could not be carried out due to a shortage of sand.	Steps should be taken to complete it within the specified year.
(d) In terms of Section 15(1) of the Housing Construction and Urban Development Ordinance No. 15 of 1915; Although a Certificate of Compliance (COC) should be issued to verify whether buildings have been constructed in accordance with the provisions of the Act, by the end of the year under review, certificates of compliance had not been issued for 163 development permits issued for the construction of buildings.	Action has taken to correct it.	Steps should be taken to issue a certificate of conformity.

3.2 Assets Management

Audit observations	Comments of the Sabha	Recommendation
(a) The council had not taken steps to repair and reuse or sell at auction 22 vehicles that had been in an unusable condition for more than 13 years.	That work is underway to repair/dispose of the building.	Repair or disposal work should be expedited.

(b)	Steps had not been taken to transfer ownership of 13 cemeteries, 09 lands, 02 wells and 21 vehicles used by the council to the council.	Steps are being taken to vest the ownership of the council.	The process of settling the ownership of assets and taking them over should be expedited.
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3.4 Human Resource Management

Audit observations	Comments of the Sabha	Recommendation
Steps had not been taken to recover distress loans of Rs.432,946 from 03 officers for a period of 01 to 03 years.	Actions are being made to recover the debt.	Debt recovery efforts should be expedited.

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 11 percent to 79 percent in 05 revenue items, from 11 percent to 42 percent in 05 expenditure items and 31 percent in one capital 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.	Noted that.	The budget should be carefully prepared by identifying needs and using it as an effective management control tool.