

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thunukkai 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 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 Thunukkai 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 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 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 Scope of Audit (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 skepticism 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 includes 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.
- (a) Except for the observations 1.6.1(e) & 1.6.2 mentioned in my report, 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) The value of 28 lands owned and used by the Council had not been assessed and accounted for by the end of the year under review.	Steps will be taken to revalue and account for it.	Financial statements should be prepared accurately, including all asset values.
(b) The cost of 02 constructions amounting to Rs. 3,828,970 and the value added tax payments of Rs.1,312,830 on 03 construction items that had been completed in the year under review had not been capitalized.	Steps have been taken to capitalize it in the future.	Industrial costs should be accurately included in the financial statements.
(c) There was a difference of Rs.1,839,592 between the balances of 05 fixed deposits as per the financial statements and the balances as per the bank confirmations.	Steps have been taken to correct the differences in the future.	Financial statements should be prepared accurately.
(d) Since interest income of Rs. 836,309 received through the consolidated bank account systems was not disclosed in the financial statements, the income for the year was understated by that amount.	Steps have been taken to correct in the future.	-Do-
(e) The cost of the water pump purchased and installed in the year 2023 for Rs.988,019, had not been disclosed in the financial statements as fixed assets.	-Do-	-Dp-

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.25,634,492 compared to the excess of income over recurrent expenditure amounted to Rs.20,085,939 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, 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 Revenue	<u>2024</u>				<u>2023</u>				
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	36,200	73,200	73,200	-	30,250	40,500	40,500	-	
Rent	14,101,214	13,400,088	12,422,888	977,200	13,046,850	12,668,497	12,201,447	467,050	
Licence Fee	560,300	640,500	640,500	-	472,400	555,750	555,750	-	
Other Revenue	6,149,258	5,267,248	5,267,248	-	4,399,509	5,229,769	5,229,769	-	
Total	<u>20,846,972</u>	<u>19,381,036</u>	<u>18,403,836</u>	<u>977,200</u>	<u>17,949,009</u>	<u>18,494,516</u>	<u>18,027,466</u>	<u>467,050</u>	

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The Council had deposited the balance of Rs. 30,480,009 in fixed deposits in the year under review in the bank for the purpose of earning bank interest income, without using it for development activities related to public utility services as mentioned in Section 108 of Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987.	Those funds had been held in the bank to implement unfulfilled projects and are currently being used in activities.	Steps should be taken to engage in development activities related to public utility services in accordance with the Pradeshiya Sabha Act.

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| (b) | 28 projects worth Rs. 30,300,000 for which the Council had made budget provisions in the year under review and the previous year had not been initiated by the end of the year under review. | Bids are being called and further steps are being taken. | Steps should be taken to ensure that projects are started within the stipulated time frame and completed on the stipulated dates, thereby providing tangible benefits to the people. |
| (c) | The council had lost an annual income of Rs. 115,800 by not taking steps to rent out 03 shops. | The rental process is underway. | Appropriate steps should be taken to rent. |

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Although, in terms of Section 15(1) of the Housing Construction and Urban Development Ordinance No. 15 of 1915, a Certificate of Compliance (COC) should be issued to verify whether the buildings have been constructed in accordance with the provisions of the Act, certificates of compliance had not been issued for 13 development permits issued for the construction of buildings at the end of the year under review.	Steps will be taken to issue certificates of compliance in the near future.	Steps should be taken to issue certificates of compliance.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Contrary to paragraph 1.1 of the Finance Commission Circular No. 2016/01 dated 30th December 2015, 05 construction works and 05 renovation works were carried out on properties not belonging to the Council at a cost of Rs. 67,526,388.	Land acquisition procedures have been started.	Steps should be taken to obtain formal documents related to the ownership of the lands.

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| (b) | Steps had not been taken to transfer 05 vehicles used by the Council to the name of the Council for over 10 to 13 years. | The books for those vehicles cannot be obtained. | The ownership of the assets should be clarified by consulting the Department of Motor Traffic Commissioner. |
| (c) | The tree grinding machine, which had been purchased by the council for Rs. 1,146,000 for the production of compost fertilizer in the year 2023, had not yet been put into use for the relevant purpose as of the reporting date. | Since the amount of waste is very small, it cannot be used for continuous fertilizer production. | Steps should be taken to fully utilize the assets and the need should be identified and assets should be purchased. |

4. **Accountability and Good Governance**

4.1 **Budgetary Control**

Audit Observation

When comparing the estimated income and expenditure with the actual income and expenditure as per the budget prepared for the year under review, the budget had not been used as an effective management control instrument due to variations ranging from 22 percent to 102 percent in 03 revenue objects and from 26 percent to 85 percent in 04 expenditure objects, and due to the absence of budget estimates for one capital expenditure object.

Comments of the Council Recommendation

Efforts will be made to prepare the budget in the future in a way that prevents such changes from occurring.

Needs should be identified and the budget should be prepared carefully.