

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Vengadachettikulam 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 Vengadachettikulam 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.

- (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 Council	Recommendation
(a) An estimated cost of Rs. 5,166,992 relating to 09 unfinished constructions had been accounted for as creditors.	That the time extensions were granted and were fulfilled this year.	Accounts should be prepared correctly.
(b) The store's inventory balance at the end of the year under review was overstated in the financial statements by Rs.171,000 and therefore, the surplus also overstated by that amount.	That the steps will be taken to correct this error in the financial statements for the year 2025.	Financial statements should be prepared properly.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 232,000 between the balance as per the financial statements and the corresponding balances in the records in respect of 02 accounting items.	The document will be corrected and submitted to you.	Steps should be taken to reconcile the balances in the financial statements with the relevant source documents.

1.7 Non-compliance

1.7.1 Non-compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, and Regulations	Non-compliance	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571 (1), (2) and (3)	The Sabha had not taken steps to return to the relevant person or transfer to revenue of road maintenance deposits amounting to Rs. 320,000 that had expired for more than 02 years.	If the deposit is not withdrawn within the specified time, it will be transferred to revenue.	Action must be taken in accordance with financial regulations.

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.13,749,520 compared to the excess of income over recurrent expenditure amounted to Rs.7,374,866 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	2024				2023			
	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.
Rent	13,080,650	11,153,665	11,014,059	139,606	14,720,590	10,058,373	10,058,373	-
License Fee	1,820,000	1,245,580	1,245,580	-	1,868,500	1,408,855	1,408,855	-
Other Revenue	5,932,000	9,455,748	9,455,748	-	6,521,000	9,069,691	9,069,691	-
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Total	20,832,650	21,854,993	21,715,387	139,606	23,110,090	20,536,919	20,536,919	-
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2.2.2 Performance in Collecting Revenue

Audit Observation

The Sabha had not taken action to levy rates and taxes in terms of Section 134(i) of the Pradeshiya Councils Act No. 15 of 1987.

Comments of the Council

Requests have been sent to the Valuation Department.

Recommendation

Appropriate measures should be taken immediately to generate income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

- (a) The balance of Rs.41,667,849 available in fixed deposits during the year under review had not been utilized for development activities related to public utility services as mentioned in Section 108 of Chapter IV of the Pradeshiya

Comments of the Council

It was deposited for unrespectable disasters and certain specific needs.

Recommendation

Steps should be taken to utilize excess funds in development activities related to public utility services

Sabha Act No. 15 of 1987 and had been deposited with the bank for the purpose of earning interest income.

in accordance with the Pradeshiya Sabha Act.

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| (b) | The Sabha had lost an annual income of Rs. 130,636 due to the failure to take steps to rent out the Settikulam Public Market building and the Suduvenda Pulau shopping complex. | Steps are being taken to rent it out. | Appropriate measures should be taken to rent. |
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3.2 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	No action had been taken for the past 2 years to generate income by renting out the weekly market building complex, which was constructed without conducting a feasibility study at a cost of Rs. 5,000,000 from the financial allocation of the Regional Development Assistance Program for the year 2022.	Income generation measures have been taken for the year 2025.	Steps should be taken to fully utilize assets.
(b)	The council had not taken steps to repair and reuse or to sell them at auction regarding the tractor, backhoe loader and gully inhibitor, etc., which had not been used for a period of 01 to 16 years.	That action will be taken to sell the property at auction after it is taken over by the council.	Steps should be taken to repair and reuse the relevant assets or to dispose of them.
(c)	62 lands, 35 cemeteries and 09 vehicles used by the Sabha have not been taken over by the Sabha to date.	That the steps are being taken to obtain acquire orders.	The ownership of assets should be cleared.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure with the actual income and expenditure as per the budget prepared for the year under review, there were variations ranging from 14 percent to 320 percent in 06 income objects and from 19 percent to 45 percent in 05 expenditure objects, therefore, the budget had not been used as an effective management control tool.	Action will be taken in the future.	Needs should be identified and the budget carefully prepared.