

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Vavuniya North 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 Vavuniya North 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) The estimated cost of Rs.6,194,072 related to 05 unfinished constructions had been accounted for as creditors.	It was completed in 2025 and steps have been taken to include it in the final accounts.	Accounts should be prepared correctly.
(b) A sum of Rs.1,791,754 received as donations for recurrent expenses under the Regional Development Assistance Program financial allocations had been accounted for as donations for capital expenses.	The value was calculated by including all costs related to the building constructed under one program.	-Do-
(c) The total of Rs. 1,058,750 received for interest income from fixed deposits and income from the sale of solar energy electricity relating to the previous year was recorded as income for the year under review, and the income for the year was overstated by that amount.	The year in which the interest is received is reported as income.	-Do-
(d) The bid deposits received from the long-term lease of a shop amounting to Rs. 871,111 had been recognized as rental income for the year.	That was not stated in the final accounts erroneously.	-Do-
(e) The computer system purchased at a cost of Rs. 1,156,200 under the Regional Development Assistance Program was not shown as non-current assets in the financial statements.	Steps have been taken to include it in the financial statements of the year 2025.	The relevant value should be properly included in the financial statements.

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| (f) | Value added tax payments of Rs.1,015,003 on the value of the newly constructed tar road during the year under review had not been capitalized. | -Do- | The value added tax value should also be capitalized. |
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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.21,328,897 compared to the excess of income over recurrent expenditure amounted to Rs.21,540,012 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	11,789,260	12,220,837	10,920,182	1,300,655	6,603,832	13,080,845	10,551,162	2,529,683
License Fee	3,033,000	1,730,620	1,730,620	-	12,893,000	12,919,267	12,919,267	-
Other Revenue	6,177,640	9,716,225	9,716,225	-	6,896,100	5,572,755	5,572,755	-
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Total	20,999,900	23,667,682	22,367,027	1,300,655	26,392,932	31,572,867	29,043,184	2,529,683
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2.2.2 Performance in Collecting Revenue

Audit Observation

Appropriate action had not been taken for the past 1 to 10 years to recover arrears of shop rent and lease rent of Rs.1,013,000. Also, the court fines due as at 31 December 2024 is amounted to Rs.22,650,495.

Comments of the Council

Recovery efforts are ongoing.

Recommendation

Urgent steps should be taken to recover arrears.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

The balance of Rs.41,554,610 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 Sabha Act No. 15 of 1987 and had been deposited with the bank for the purpose of earning interest income

Comments of the Council

Steps will be taken to use it in development work in the future.

Recommendation

Steps should be taken to utilize the surplus funds of the Sabha in development activities related to public utility services, in accordance with the Local Councils Act.

3.2 Operational Inefficiencies

Audit Observation

Although, in accordance with 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 21 development permits issued for the construction of buildings by the end of the year under review.

Comments of the Council

Although informed, no one has inquired and obtained it.

Recommendation

Steps should be taken to inspect the building construction and issue the certificate of compliance.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) The drinking water treatment plant constructed at a cost of Rs. 4,500,000 in Senappulavu under the Provincial Specific Development Assistance in the year 2021 has not been operational for over a year and the council had not taken steps to generate income from it.	Alternative measures have been taken to implement it at present.	Steps should be taken to fully utilize the assets.
(b) Appropriate measures have not been taken for the utilization of 14 shops located in the bus stand shopping complex owned by the Sabha for over 5 years.	Bids have been invited to rent them out in the current year.	Urgent steps should be taken to generate income by renting out the property.
(c) The council had not taken steps to repair and reuse or to sell them at auction regarding the motor grader and motorcycles, etc., which had been out of use for a period of 1 to 15 years.	That the steps have been taken to repair them with the approval of the mechanical engineer.	Assets should not be left unused.
(d) 81 lands, 62 wells, 31 cemeteries and 04 vehicles used by the Sabha have not been taken over by the Sabha to date.	That steps are being taken to take over.	Ownership of assets should be cleared.

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, there were variations ranging from 12 percent to 146 percent in 06 income objects and from 13 percent to 51 percent in 06 expenditure objects, therefore, the budget had not been used as an effective management control tool.

Comments of the Council

Steps have been taken to spend 98 percent of the income.

Recommendation

The budget should be prepared carefully, identifying the requirements.