

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chavakachcheri Pradeshiya Sabha for the year ended 31 December 2023 comprising the balance sheet as at 31 December 2023 and income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out 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 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 Chavakachcheri Pradeshiya Sabha as at 31 December 2023, 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 Principles 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 Sub 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.

- 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.
- 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	Comment of the Sabhas	Recommendations
(a) A total sum of Rs.24,511,162 received for 07 capital works under local development support project had been shown as miscellaneous deposits in the financial statements.	It is to be included in the budget estimate for the year 2024 and implemented.	Financial statements should be prepared accurately.
(b) Eight development works completed at a total cost of Rs. 12,729,203 had not been accounted for as fixed assets.	It will be rectified in the final accounts for the year 2024.	Accounts should be prepared correctly.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs.504,572 between the goods balance shown as per store ledger and the balance shown in the financial statements as at 31 December 2023.	The reasons for the difference are inquired and adjustments are being made through journal entries.	The balances in the financial statements should be reconciled with the relevant source documents.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Sabha	Recommendation
Arrears of assesment tax as at 31 December of the year under review valued at Rs. 3,035,653 could not be satisfactorily verified due to non-submission of relevant ledgers, schedules and age analysis for audit.	Attention will be paid to this matter in the future.	Ledgers, schelues and age analysis should be prepared.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules and Regulations	Non-compliances	Comment of the Sabhas	Recommendations
(a)	Section 134 of the Pradeshia Sabhas Act No. 15 of 1987	K form had not been issued for 1,507 properties out of 7122 properties that are to be rocovered assesment tax by the Sabha in the year under review.	Action will be taken to revalue the property and issue K form entirely in future.	Action should be taken according to the provisions of the Act.
(b)	Section 32 (III) of Chapter III Pradeshia Sabha Financial and Administrative Rules of 1988	In 03 sub-offices of the Sabha, the ledger related to rates and taxes recovery had not been maintained and recovery of rates and taxes had not been done in the year under review.	Actions are being taken for valuation.	Effective measures should be taken to recover rates and taxes.

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 2023 amounted to Rs. 121,510,834 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 93,742,027 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 presented by the Sabha, 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 Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	162,000	207,756	124,522	3,035,653	163,465	165,899	14,637	2,952,419
Rent	21,755,150	25,331,942	25,339,642	38,050	15,313,200	17,036,028	16,990,278	45,750
License Fees	2,634,000	2,744,245	2,744,245	-	2,555,250	1,635,918	1,635,918	-
Other revenue	<u>68,117,200</u>	<u>123,703,079</u>	<u>123,703,079</u>	<u>-</u>	<u>43,565,435</u>	<u>93,208,188</u>	<u>93,208,188</u>	<u>-</u>
Total	<u>92,668,350</u>	<u>151,987,022</u>	<u>151,911,488</u>	<u>3,073,703</u>	<u>61,597,350</u>	<u>112,046,033</u>	<u>111,849,021</u>	<u>2,998,169</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Sabha	Recommendation
Action had not been taken to recover arrears of rates and taxes for the period between 01 year and 05 years totalling Rs. 3,035,653 by the end of the year under review.	Actions had been taken to recover through mobile services.	Actions should be taken to recover arrears of revenue promptly.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observations	Comment of the Sabhas	Recommendations
(a) Fourty three development work schemes totalling Rs. 102,312,634 implemented by the development reserve fund of the Sabha between the last 01 year and 07 years had been abandoned midway.	At present, as bids have been invited and estimates have been prepared, all works will be completed by the end of this year.	Actions should be taken to carry out the relevant development works within the stipulated time frame.

(b)	In the year under review, 08 shops owned by the Sabha had not been rented out, thus there was a loss of revenue of Rs.650,500.	Bids had been invited on several occasions for renting out shops, but no one came forward.	Actions should be taken to fully utilize the income sources of the Sabha.
(c)	The long-term rental contracts of 15 shops, which are to be renewed once in 03 to 05 years, had been continuously operated for the last 01 to 06 years without such renewal.	After the revaluation, the contracts will be renewed.	Effective measures should be taken to renew the tenancy agreements at regular intervals.

3.2 Assets Management

	Audit Observations	Comment of the Sabhas	Recommendations
(a)	One hundred and eighty seven wells, 45 cemetaries and 21 lands and buildings had not been handed over to the Sabha up to now. Also, 08 buildings valued at Rs. 5,482,112 had been constructed on lands not owned by the Sabha contrary to paragraph 1.1 of Finance Commission Circular No. 2016/01 of 30 December 2015 during the year under review.	A letter had been sent to the Divisional Secretary requesting map for acquisition and valuation.	Ownership of assets should be settled.
(b)	Thirteen buildings valued at Rs. 11,258,238 had been constructed on lands not owned by the Sabha contrary to paragraph 1.1 of Finance Commission Circular No. 2016/01 of 30 December 2015 during the year under review.	A letter had been sent to the Divisional Secretary requesting map for acquisition and valuation.	Ownership of assets should be settled.
(c)	Plant and machinery of Rs. 3,183,200 and furniture of Rs.231,450 purchased for library use and plant and machinery of Rs.1,289,500 purchased for pre-school development during the year under review were remained unused till now.	Action will be taken to utilize.	Actions should be taken to fully utilize the assets.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
Due to the fact that there were variations from 25 per cent to 129 per cent in 04 revenue items, from 20 per cent to 60 per cent in 05 expenditure items and 79 per cent 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.	Revenue and expenditure estimates will be corrected in future and an effective budget will be prepared.	Needs should be identified and the budget should be prepared carefully.