

1. Financial Statements

1.1 Disclaimer Opinion

The audit of the financial statements of the Kalutara Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of changes in net assets/ equity, 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 the provisions 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.

I do not express an opinion on the financial statements of the Kalutara Pradeshiya Sabha because of the significance of the matters described in paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer Opinion

I expressed Disclaimer of opinion regarding financial statements on the matters described in paragraph 1.6 of this report .

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 Sri Lanka Public Sector Accounting Standards for the Local Authorities, 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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

Non-compliance with reference to relevant standard	Comment of the Sabha	Recommendation
(a) According to Chapter No. 3.30 of the standard, the capital contributed and the amount of borrowing should be shown under the financial activities of the cash flow statement, but the capital grants of Rs. 10,663,787 received during the year were shown as Rs. 112,115.	Preparing the cash flow statements correctly in the future.	Financial statements should be prepared in accordance with Standard .
(b) Depreciation adjustments had not been made for fixed assets in previous years as well as for the year under review as per Chapter No. 6.10 and 6.11 of the Standard.	Depreciation cannot be calculated until the assets are valued.	-do-
(c) According to Chapter No. 18.7 of the standard, using the revaluation value of property and equipment in the presentation of financial statements is considered as a presentation of financial statements in accordance with the standard, but the sabha had not revalued the fixed assets at the end of the year under review.	paying for asset valuation is difficult.	-do-

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Library books, property, plant and equipment amounting to Rs.5,560,061 were accounted as inventory under current assets instead of being accounted as fixed assets.	The mistake will be corrected in the future.	Accounts should be prepared correctly.

- (b) Capital grants amounting to Rs.10,663,787 receiving in the year under review were recognized as transfers from the Government for non-recurring expenditure instead of being shown under other comprehensive income in the statement of comprehensive income. -do- -do-

1.6.3 Non reconciled control account or Records

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs.259,810 was observed between the balances shown in the financial statements and the balances shown in the schedules related to 03 accounting subjects.	The action will be taken to correct in preparing the account 2024 through journal entries.	Differences in respective balances should be compared and the accounts should be rectified.

1.6.4. Contingent accounts

Audit Observation	Comment of the Sabha	Recommendation
The credit balance of Rs.1,435,668 in the internal money transfer account, which has existed for many years, had not been identified and settled.	it will be corrected in the year 2024.	Uncertain balances should be settled.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below .

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Sabha	Recommendation
(a) Non-implementation of the provisions of Extraordinary Gazette No. 2296/05 dated 06 September 2022.	(i)Change in new sabha area and membership was not disclosed in the financial statements.	No answered.	Proceed in accordance with provisions of the gazette .
	(ii)Due to the non-recognition of the assessment tax income receivable to the Kalutara Municipal Council from 20 March to 31 December 2023, the assessment income due to the Kalutara Municipal Council was also shown as an income of the Kalutara pradeshiya sabha in the financial statements.	-do-	Accounts should be prepared correctly.
	(iii) Assets belonging to the Kalutara Pradeshiya sabha	-do-	-do-

were not correctly represented in the financial statements as the amount of assets that should belong to the Kalutara Municipal Council from 20 March 2023 had not been identified and handed over even at the end of the year under review.

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| (b) | Section 134(1) of the the Pradeshiya Sabha Act No. 15 of 1987 | Although the approval had received of the Chief Minister to carry out a new assessment in the year 2019, charges had been based on assessment of the year 2013 for the current year. | The revision work will be started as soon as the instructions are received from the Secretary of the Ministry of Local Government. | Proceed in accordance with rule. |
| (c) | Section 03 of State Finance Circular No. 02/2014 dated 17 October 2014 | The Board of survey report for the year under review was not submitted to the Auditor General. | The Board of survey work is currently being done. | -do- |
| (b) | Rule No. 42 of Gazette No. 2155/8 dated 24 December 2019 | The annual survey of land and buildings owned by the Sabha had not been done. | The survey work is currently being carried out. | -do- |

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs44,290,949. as compared with the excess of revenue over expenditure amounting to Rs. 50,962,414 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 Secretary, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows

	Source of Revenue	2023				2022			
		Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i)	Rates and Taxes	9,482,276	9,503,429	13,044,149	8,044,149	9,483,183	9,479,741	8,537,184	12,208,751
(ii)	Rent	257,400	315,400	315,400	-	270,000	270,000	294,500	-
(iii)	License Fees	1,554,600	1,713,750	1,713,750	-	440,000	415,175	415,175	-
		11,294,276	11,532,579	15,073,299	8,044,149	10,193,183	10,164,916	9,246,859	12,208,751

2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below.

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) Assessments and Taxes</p> <p>According to the assessment tax period analysis as at 31 December of the reviewed year, the assessment tax deficit between years 03 - 05 was Rs.2,032,961, the deficit between years 05 - 10 was Rs.2,336,619 and the deficit over 10 years was Rs.1,039,021.</p>	recovery of tax arrears has already started.	The action should be taken to collect the arrears of income as soon as possible.
<p>(b) Other income</p> <p>The court fine that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2023 was Rs. 61,514,857 and stamp duty was Rs.208,006,586.</p>	court fines and stamp fees relating to year 2020 are being processed.	Actions should be taken to recover the receivables.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) Although the sabha had entered into an agreement with the Urban Development Authority on 11 January 2022 for mapping by setting up a geographic data system of roads, lights and drainage systems under the jurisdiction of the sabha as at end of 31 May 2022, relevant work had not been completed by the Development Authority and no new contracts had been signed by extending the time as at 31 December of the year under review.</p>	remaining jurisdictions are expected to work under a new agreement.	Actions must be taken to accomplish the work as agreed.

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| (b) The loan balance amounting to Rs.537,087 for 04 projects completed in 2018 and 2019 had not been settled at the end of the year under review | Further work is in progress. | Debt balances must be settled. |
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3.2 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) 28 lands owned by the sabha had not been assessed at the end of the year under review.	The land buildings that do not have plan are being measured and the necessary activities are being done to make .	Assets owned by the sabha should be properly identified and documented.
(b) The ownership of 17 cemeteries under the jurisdiction of Sabha was not transferred to the Sabha.	acquisition is being done through the Divisional Secretary.	That Arrangements should be made to acquire the cemetery to the sabha.

3.3 Procumbent management

Audit Observation	Comment of the Sabha	Recommendation
(a) Although Rs. 2,571,050 was spent for the purchase of street lamp sets and maintenance materials from January to August 2023, the technical evaluation committee had not been verified whether the purchased items were in accordance with the specifications.	After August 2023, based on the reports of the Technical Evaluation Committee.	Purchases should be done according to the approval of the Technical Evaluation Committee.
(b) A loss of Rs.368,850 had been incurred due to the awarding of the tender to a private company which offered a higher price of Rs.43,580 while rejecting the minimum price of Rs.6,700 offered by a private company during the purchase of toner in the year under review.	Referred to technical evaluations and purchased after receiving those reports.	Procurement guidelines should be followed.