

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Karachchi 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 accompanying financial statements give a true and fair view of the financial position of the Karachchi 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**

My opinion is qualified 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

	<b>Audit Observations</b>	<b>Comment of the Sabhas</b>	<b>Recommendations</b>
(a)	The value of 08 completed development works amounting to Rs. 32,430,993 had not been accounted as fixed assets.	That the correction will be made in the final accounts of the year 2024.	Accounts should be properly prepared.
(b)	Estimated cost of Rs. 31,735,559 related to 25 unfinished constructions had been accounted as creditors.	That these balances will be settled as soon as the bills related to the payments are submitted.	- Do -

### 1.6.2 Documentary Evidences not made available for Audit

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The necessary documents and details, to confirm the accuracy of 50 land rentals in relation to the previous year amounting to Rs. 1,375,565 which was due to the council, had not been submitted for audit.	After receiving the files, further action will be taken.	Documents, lists 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, Regulations etc.	Non-compliance	Comments of the Sabhas	Recommendations
(a)	Section 134 of the Pradeshiya Sabha Act No. 15 of 1987	In the year under review, the council had not been distributed K forms for 34,250 taxable properties.	In future, actions will be taken to fully deliver after re-valuation.	Actions should be taken according to the provisions of the law.
(b)	571(1), (2) and (3) of the Finance Regulations of the Democratic Socialist Republic of Sri Lanka.	13 overdue deposits totaling Rs. 840,657, more than 02 years old had not been settled.	That further actions are being done.	Actions should be taken according to the financial regulations.

## 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. 160,146,101 as compared with excess of revenue over recurrent expenditure amounted to Rs. 139,813,643 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 by the Sabha 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	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	31,318,748	87,151,895	12,475,045	74,676,850	31,319,374	65,376,200	12,833,672	52,542,528
(ii) Rent	161,309,534	78,438,208	66,604,905	11,833,303	50,327,930	69,879,051	59,429,615	10,449,436
(iii) License Fees	9,637,100	1,214,270	10,626,024	-	11,245,150	10,654,432	10,654,432	-
(iv) Other revenue	89,670,566	122,292,771	121,264,921	1,027,850	69,992,360	91,881,943	90,072,768	1,809,175
	<u>291,935,948</u>	<u>289,097,144</u>	<u>210,970,895</u>	<u>87,538,003</u>	<u>162,884,814</u>	<u>237,791,626</u>	<u>172,990,487</u>	<u>64,801,139</u>

## 2.2.2 Performance in Revenue Collection

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The balance of arrears of assessment tax due from 19,448 residents for more than 05 years was Rs. 60,122,001 and between 01 and 10 years there was a balance of Rs. 12,106,808 of old arrears of taxes, rent and various fees.	That further actions are being done.	Effective actions should be taken to recover the arrears.

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The amount of loan balance payable to the Local Credit Development Fund amounting to Rs. 2,274,784 had not been settled for more than 6 years.	That actions will be taken to settle.	Actions should be taken to settle the loan amount.

### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The construction works of 02 buildings, totaling Rs. 31,553,960 which had been implemented from the last 01 to 03 years from the council's development reserve fund, had been abandoned.	That further actions are being done.	Actions should be taken to complete the relevant development works within the prescribed periods.

### 3.3 Assets Management

	<b>Audit Observations</b>	<b>Comment of the Sabhas</b>	<b>Recommendations</b>
(a)	The ownership of 12 vehicles and 108 lands spread over 354 acres, which were used by the council for more than 05 years, has not been taken over until now.	That the actions for transfer of ownership are in progress.	Actions should be taken to take over by the council.

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| (b) | Under the Provincial Specific Development Grants, the Vannerikkulam Tourist Center built in the year 2016 had not been made suitable for tourists so far, the Rs. 4,790,078 spent on it had become an uneconomical expenditure.            | That further actions are being done in this regard.                | Actions should be taken to utilize the assets at optimum level. |
| (c) | A total of 141 computer systems and furniture purchased at a cost of Rs. 7,731,768 for 06 libraries from the Development Fund had not been used for the relevant purposes.   | That actions will be taken to provide to libraries.                | Actions should be taken to utilize the assets at optimum level. |
| (d) | 03 market stall complexes, 23 stalls and parks and parking lots, which were built at a cost of Rs. 100,165,848 from the funds of the council and the Local Credit Development fund, had been remained idle for a period of 01 to 02 years. | That bids were invited on several occasions but none came forward. | - Do -  |
| (e) | The Organic Fertilizer Project established in Umaiyalpuram under the Ministry of Provincial Councils and Local Government around the year 2017 at a cost of Rs. 4,090,488 had been remained unused for the last 6 years.                   | That it was decided to establish and operate elsewhere.            | Actions should be taken to utilize the assets at optimum level. |