

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Karainagar 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 Karainagar 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) Three development works completed at a cost of Rs.3,699,590 had not been accounted as fixed assets.	Adjustments will be made in the final accounts of the year 2024.	Accounts should be prepared correctly.
(b) Estimated cost of 02 unfinished construction works amounting to Rs. 3,600,000 had been accounted for as creditors.	These balances will be rectified after submission of payment bills.	-Do-
(c) The value of 18 lands and buildings owned by the Sabha had not been assessed and accounted for even as at the end of the year under review.	At present, the value of the building is being evaluated.	Accounts should be prepared correctly.
(d) The building value of Rs.1,454,180 which was removed in the previous year had not been deducted from its cost.	After receiving the answers, it will be removed from the accounts.	-do-

## 1.7 Non-compliances

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

Reference to Laws, Rules and Regulation	Non-compliance	Comment of the Sabha	Recommendation
Section 134 of the Pradeshiya Sabhas Act No. 15 of 1987	K form had not been issued for 8,402 properties that are to be rocovered assessment tax by the Sabha in the year under review.	That due to the difficulties in finding the property owners.	Action should be taken according to the provisions of the Act.

## 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. 25,713,968 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 10,249,175 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	9,426,100	18,718,764	16,863,351	1,855,413	5,423,000	6,210,515	6,210,515	-
Rent	2,027,000	3,964,364	3,964,364	-	1,610,000	1,433,455	1,433,455	-
License Fees	415,600	503,776	503,776	-	346,700	467,970	467,970	-
Other revenue	14,447,700	25,053,790	25,963,734	6,105,056	11,720,900	14,553,477	14,544,977	7,014,994
Total	<u>26,316,400</u>	<u>48,240,694</u>	<u>47,295,225</u>	<u>7,960,469</u>	<u>19,100,600</u>	<u>22,665,417</u>	<u>22,656,917</u>	<u>7,014,994</u>

## 2.2.2 Performance in Revenue Collection

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Assessment tax of Rs. 1,855,413 which was outstanding for one year and drinking water charges of Rs. 1,968,196 which was outstanding for more than 03 years had not been recovered up to now.	Actions are being taken.	Immediate steps should be taken to recover outstanding balances.

## 3. Operating Review

### 3.1 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Seven work schemes totalling Rs. 21,051,855 implemented by the development reserve fund of the Sabha during the period between 01 and 10 years had been abandoned midway.	It will be implemented in the future.	The relevant development works should be completed within the stipulated time.

### 3.2 Assets Management

<b>Audit Observations</b>	<b>Comment of the Sabhas</b>	<b>Recommendations</b>
(a) 02 lands in use by the Sabha and 05 lands of Rs.48,467,487 included in the fixed assets of the financial statements were not owned by the Sabha.	Action will be taken to take over.	The ownership of the assets should be settled.
(b) Four buildings valued at Rs. 24,879,561 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.	Actions had been taken to draw land survey map.	-Do-
(c) Six repairable vehicles remained unused since 2017.	As the repair costs were high and there was no need, it remained unused.	Effective actions should be taken for proper disposal.

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| (d) | Sakkalavodai Fish Market constructed at a cost of Rs. 3,773,679 for the purpose of renting out on long term basis remained unused until now. | Bids were invited on several occasions for the lease, but none came forward. | Actions should be taken to utilize all sources of revenue of the Sabha. |
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**4. Accountability and Good Governance**

**4.1 Budgetary Control**

**Audit Observations**

The budget had not been used as an effective management control tool due to the variations of 122 per cent to 143 per cent in 04 revenue items and 28 per cent in 01 expenditure item in comparison with the estimated revenue and expenditure and actual revenue and expenditure according to the budget prepared for the year under review.

**Comment of the Sabhas**

Those deficiencies will be rectified in the future and an effective budget will be prepared.

**Recommendations**

Needs should be identified and the budget should be prepared carefully.

**4.2 Environmental Issue**

**Audit Observation**

For the past 02 years, effective measures had not been taken to control mosquito breeding in the area selected for disposal of solid wastes by spraying mosquito oil and removing the odor.

**Comment of the Sabha**

It will be done in the future.

**Recommendation**

Garbage should be disposed of in an eco friendly manner.