

Chilaw pradeshiya sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chilaw pradeshiya sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, Statement of Finance Operation, Statement of Net Assets Changes, Cash Flow Statement 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018 ,sub section 172(1) of Pradeshiya Sabha Act No. 15 of 1987. 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 Chilaw pradeshiya sabha as at 31 December 2024, and of its financial performance and cash flows for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 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 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 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.

- (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 of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting deficiencies

Audit Observation	Comments of the council	Recommendation
(a) Five types of assets worth Rs. 541,562 purchased during the year under review had not been recorded under non-current assets.	Fixed assets will be recorded obtaining the details of fixed assest subject officers.	Accounts should be kept correctly.
(b) Although the sum of the net cash flows generated during a year from operating, investing and financing activities in a cash flow statement and cash and cash equivalents at the beginning of the year should equal to the sum of cash and cash equivalents at the end of that year, a difference of Rs. 216,691,183 was observed in the above balances in the cash flow statement prepared by the Council for the year under review.	The mistakes are admitted occurred in the preparation of the cash flow statement prepared for the year ending 31 st December 2024, and action will be taken to investigate the matters and present correctly.	The cash flow statement should be prepared correctly.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the council	Recommendation
A difference of Rs. 8,216,812 was observed between the balances as per the financial statements and the balances as per the schedules of 05 account balances.	Actions will be taken to correct it, finding the matters for deferences.	Action should be taken to identify and correct any discrepancies between the ledger balances and the account balances.

1.7 Non- Compliances

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

Non-compliance with laws, rules, regulations and management decisions as follows.

	Reference to laws, rules, regulations, etc.	Non-compliance	Comments of the council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
	F.R 571 Section (2)	Action had not been taken in accordance with the Financial regulations regarding deposits of Rs. 1,540,466 which were over 02 years old.	Subject officers will be informed and further action will be taken to release or credit to income	Financial regulations should be followed.
(b)	Gazette Extraordinary No. 1822/22 dated 01 st October 2014 Sections 05(1) and 06 of iv (b)	Although the land parcels that have been parceled out should not be alienated, sold, transferred or advertised for sale before the plan have been approved by the Chairman of the Council and the development conditions have been completed, advertisements were published for 04 plots of land that had been parceled out and prepared for sale in 2023 and 2024, and blindings had been constructed in the land without approval of council and completion of development conditions.	The relevant institutions have been informed about this.	Action should be taken according to the circular instructions.
(c)	Gazette Extraordinary No. 1929/45 dated 28th August 2015			
	Sections 06(01) (a) and (b)	Although the ownership of the land portion of the land that is to be owned by the council for public facilities and the ownership of the road systems	Action will be taken to obtain the deeds promptly. Informing institution That have	Action should be taken according to the circular instructions.

should be transferred to the Pradeshiya Sabha through registered deeds, such action had not been taken in relation to 04 lands that were sold in plots in the council area in the years 2023 and 2024. not been issued registered deeds.

- (d) Circular of the Commissioner of Local Government (North West) No. N.W.L.G. D/01/11/04/01 dated 10th January 2019

Section 5 Although the assessed rent should be revised at least once every 3 years, 12 stalls near the Madampe Clock Tower were leased for the next 2 years starting from 2025, adding ten percent to the previous rent. Although a new valuation was requested from the Valuation Department, a new valuation was not received by the due date. Then the shops were leased at an additional 10% of the existing rent. Action should be taken according to the circular instructions.

2. Financial review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31st December 2024 amounted to Rs.91,429,548 as compared with the excess of revenue over recurrent expenditure amounted to Rs.144,347,101 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated revenues, billed revenues, collected revenues and outstanding revenues

According to the information submitted by the Secretary, the details of estimated revenue, billed revenue, collected revenue and arrears of revenue submitted for the year under review and the previous year are given below.

Source of Revenue	Estimated Revenue	2024			Estimated Revenue	2023		
		Billed Revenue	Collected Revenue	Total Arrears as at 31 December		Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
i. Assessment tax	11,024	10,510	10,215	4,762	10,135	11,393	11,669	4,473
ii. Rent	12,603	6,830	6,775	4,314	9,625	9,993	8,775	4,388
iii. License fees	1,150	1,321	1,321	-	1,050	1,132	1,132	-
iv. Other income	26,541	18,347	18,347	-	11,986	29,906	29,906	-
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Total	51,318	37,008	36,658	9,076	32,796	52,424	51,482	8,861
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2.2.2 Performance In Revenue collection

The following are observations regarding the revenue collection performance of the council.

	Audit Observation	Comments of the council	Recommendation
(a)	Assessment and Taxes		
i.	The assessment tax arrears at the end of the year under review were Rs. 4,285,795 of which Rs. 1,957,528 were outstanding for more than 01 year but less than 03 years and Rs. 1,223,455 were outstanding for more than 03 years. No action had been taken to recover these outstanding balances.	Actions are being taken to recover the outstanding balances.	Actions should be taken to recover outstanding assessments promptly.
ii.	As at 31 st December of the year under review, the arrears of acreage tax due from landowners amounted to Rs. 309,188, of which Rs. 115,204 was due for a period between 01 and 03 years and Rs. 122,555 was due for a period of more than 03 years.	Actions are being taken to recover the outstanding balance.	Actions should be taken to promptly recover outstanding acreage taxes.
(b)	Rent		
	As at 31 st December of the year under review, the outstanding rent was Rs. 4,314,398. Of this, Rs. 1,152,214 was between 01 and 03 years and Rs. 349,735 was for rent arrears for more than 03 years.	Actions are being taken to recover the outstanding rent.	Actions should be taken to promptly recover outstanding rents.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

	Audit Observation	Comments of the council	Recommendation
(a)	The land of 115 purchases allocated to council called Kajukele Estate in Karukkuwatawana, which had been divided and sold by the private company in 2005 had sold to a third party due to failure to take over the land.	A case has been filed against the private company on March 16, 2023, against the illegal sale of land plots.	Actions should be taken to acquire lands belonging to the council.

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| (b) | The Gurumudanna forest land measuring 01 acre and 02 rudes had been illegally divided and sold by a company in 2021, and no actions had been taken to take over the 40 perches of public land belonging to the council from that land. | Relevant actions are being taken to recover an appropriate amount for the public land and collect 1 percent tax. | Action should be taken to acquire assets belonging to the council. |
| (c) | The balance of payable accounts as at 31st December of the year under review was Rs. 83,689,135, including a balance of Rs. 375,000 that was over 03 years old. No action had been taken to verify and settle them. | Actions will be taken to settle the outstanding balances promptly. | Actions should be taken to ensure its existence and resolve it. |

3.2 Operational Inefficiencies

Audit Observation	Comments of the council	Recommendation
The lease agreement of the Munneswaram Rest House of the Chilaw pradeshiya Sabha was cancelled due to non-payment of rent from January 2022, after 1 ½ years. After the cancellation of the lease agreement in January 2024, the leaseholder is still staying illegally, and an income of Rs. 05 million had been lost. from January 2022 to December 2024, It is observed that this situation has arisen due to the delay in taking necessary action when the agreement is not being followed.	A case has been filed under case number 63136 in the Chilaw Magistrate's Court to recover the outstanding tax from the lessee, and Actions are being taken to file a case to seize possession.	Actions should be taken in accordance with agreements.

3.3 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the council	Recommendation
The Puliyankadawara Ayurveda Center, which was built at a cost of Rs. 3,276,053 in 2022, has been idle for 2 years without being inaugurated.	Actions are being taken to recruit an Ayurvedic doctor.	Actions should be taken to achieve the desired objectives.

3.4 Defects in Contract Administration

Audit Observation	Comments of the council	Recommendation
(a) Although 104 contracts with a contracted value of Rs. 60,605,936 had been started	It is acknowledged that the work of the 33 contracts signed agreements in December 2024 could not be	Actions should be taken to complete

	during the year under review, 50 industries with a contracted value of Rs. 25,479,268 could not be completed during the year.	completed before the end of that year, and 22 contracts had been completed and made payments by now. The necessary actions are being taken to complete the remaining 11 industries as soon as possible.	the budgeted tasks within the year.
(b)	4 contracts signed agreements contracted for Rs. 1,344,368 in the year 2023 had not been completed by the end of the year under review.	Three contracts have been started so far, while one contracts has been canceled.	Actions should be taken to complete the budgeted tasks within the year.
(c)	Two projects contracted during the year under review with an estimated cost of Rs. 996,020 had not been completed and handed over to the Council even though almost 6 months had passed since the contract period had expired.	The necessary materials have been procured and brought to the site to begin work on the concreting of the Walahena Peiris Watta road, and the work on the Fine Hotel road will be completed as soon as the rainy weather passes.	Actions should be taken to complete the budgeted tasks within the year.

3.5 Human Resource Management

	Audit Observation	Comments of the council	Recommendation
(a)	There were 19 secondary and 11 primary positions vacant in the council, while 16 secondary and 12 primary positions remained surplus.	02 secondary posts have been vacated due to service promotions and transfer orders of the Local Government Commissioner, while the other vacancies are existing vacancies. Also, excess of 16 Development Officers are existed previously.	Necessary actions should be taken to fill vacant positions and approve surplus positions.
(b)	A loan balance of Rs. 363,182 should have been collected from 50 employees who left the service, were suspended from work and transferred in previous years.	Actions have been taken to recover the loan from guaranties of an employee who was issued the resignation letter, and other loan balances are also being recovered.	Outstanding loan balances should be recovered.

4. Accountability and Good Governance

4.1 Budgetary control

Audit Observation	Comments of the council	Recommendation
Due to failure to prepare realistic and accurate estimates and failure to carry out budgeted tasks as planned, the entire provision of Rs. 23,754,500 provided for 107 expenditure votes in the year under review are remained.	Due to the suspension of programs due to the election period, provisions for 04 expenditure items due to non-approval under Section 132 of the Pradeshiya Sabha Act, and the provision allocated for the purchase of medical equipment as the service period of Ayurvedic doctors has ended, have remained, and provisions for 03 expenditure items are being implemented in the next year recoding as the creditors	Actions should be taken to complete the estimated expenditure votes within the relevant time frame.

4.2 Sustainable Development Goals

Audit Observation	Comments of the council	Recommendation
The Council had identified 17 Sustainable Development Goals and planned to implement 61 activities in the year under review to achieve those goals. The Council had implemented about 53 activities during the year under review, spending Rs. 1,210,311.	No comments.	Action should be taken to achieve sustainable development goals.