

## **Karuwalagaswewa Pradeshiya Sabha - 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Karuwalagaswewa 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 the 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 Karuwalagaswewa 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) The value of the water meter stock as at the last day of the year under review had been overstated by Rs. 1,603,574.	The value of the overstated water meter stock will be adjusted to the accumulated fund and the water storage stock account.	Accounts should be prepared correctly.
(b) Due to the fact that Rs. 217,252, which was identified as prepaid insurance expenses in the year 2023, was not accounted for as an expenditure in the year under review, the insurance expenditure account for the year was understated and the prepaid insurance expense account was overstated by that amount in the financial statements.	Value of the prepaid insurance expenditure and the amount of prepaid insurance as of the end of the year under review will be adjusted to the accumulated fund and the prepaid insurance expenditure account.	Accounts should be prepared correctly.
(c) Although the value of the accumulated fund at the end of the year under review in the statement of changes in net assets was Rs. 9,481,983, in the statement of financial position it was stated as Rs. 14,427,292, an excess of Rs. 4,945,309.	Action will be taken to correct it in the future.	Accounts Should be prepared correctly.

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the council	Recommendation
A difference of Rs. 263,020 was observed between the balances of 02 receivable accounts, with the balance as per the financial statements being Rs. 14,223,860 and the balance as per the schedule being Rs. 13,960,840.	The balance will be settled through the new CAT 2020 data system.	Differences should be checked and accounts should be reconciled correctly.

## 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 are as follows.

	Reference to laws, rules, regulations, etc.	Non-compliance	Comments of the council	Recommendation
(a)	Public Administration Circular No. 30/2016 dated 29th December 2016 Paragraph 3.1	Fuel combustion tests had not been carried out on 07 council vehicles as per the provisions of the circular.	A request has been made for the assistance of a mechanical engineer for this, and action will be taken as soon as after he gave a date.	Action should be taken according to the circular instructions.
(b)	North Western Local Government Department Circular No. NW.L.G.D./01/11/04/01 dated 10th January 2019	Shops at Thabbowa, Church Junction had been given away for a monthly rent of Rs. 750 since 2022 without obtaining a valuation report.	Action will be taken immediately to assess shops by valuation Department and collect rent according to assessment report.	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 Sabha for the year ended 31 December 2024 amounted to Rs. 10,633,674 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 5,769,980 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.

		<u>2024</u>				<u>2023</u>			
	Source of Revenue	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
i.	Assessments and taxes	13,852	11,975	7,010	3,418	9,814	11,306	9,182	3,204
ii.	Rent	3,005	1,951	1,923	672	2,939	2,019	1,851	641
iii.	License fees	444	234	234	-	162	172	172	-
iv.	Other income	13,863	-	5,622	-	11,326	-	1,926	-
	Total	----- 31,164	----- 14,160	----- 14,789	----- 4,090	----- 24,241	----- 13,497	----- 13,131	----- 3,845

### 2.2.2 Performance in Revenue collection

The observations regarding the revenue collection performance of the council are as follows.

	<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a)	<b>Assessment</b>		
i.	The assessment tax arrears at the end of the year under review were Rs. 524,780, of which Rs. 365,907 was arrears for more than 01 year but less than 05 years and Rs. 158,873 was arrears for more than 05 years.	Actions will be taken to promptly recover the outstanding assessment tax amount of Rs. 524,780 that is yet to be recovered.	Arrears of assessments should be collected promptly.
ii.	Although the assessment tax should be revised after every 5 years, assessment tax was levied for the year 2024 based on the assessment carried out in the year 2015.	Requests for new assessments have been made from time to time since 2023, and the new assessment tax assessment has commenced from 21 <sup>st</sup> of April 2025.	A timely assessment revision should be made and action should be taken to levy taxes accordingly.
(b)	<b>Rent</b>		
	As at 31 <sup>st</sup> December of the year under review, the outstanding rent was Rs. 401,668, of which Rs. 26,107 was arrears for more than 01 year but less than 05 years and Rs. 141,361 was arrears for more than 05 years.	Further actions are being taken to recover the remaining outstanding shop rent balance of Rs. 401,468.	Arrears of rent should be collected promptly.

## 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

	<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a)	The water project, which was constructed at a cost of Rs. 637 million under the Pura Neguma project, was handed over to the council in December 2023 along with 1000 water meters worth Rs. 5,843,110. The water connections had been provided only 167 consumers by this project and 834 water meters worth Rs.4,873,170 were in stores as at 31 <sup>st</sup> March, 2025.	No comments.	Action should be taken to provide water connections as planned through the water project.

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| (b) | Although decisions had been received for 2 cases filed by the council in court to collect the outstanding rent of 2 shops, the outstanding amount of Rs. 243,422 including the court fees had not been collected as per the decisions.                                      | Written information has been provided to the lawyer who conducted the legal proceedings in this regard on 24/02/2025 and further information has been given to take the necessary steps to recover the arrears of rent and the related legal fees. | Arrears should be recovered according to court decisions.                                |
| (c) | The value of 02 receivable accounts that were due as at 31st December of the year under review was Rs. 2,921,929, of which the value of the balances that were overdue for 03 years was Rs. 855,314. No action had been taken to recover these arrears.                     | The amount of Rs.523,159, which is the balance due for more than 03 years, had not been received despite attempts for many years. Action will be taken to settle the outstanding balance in the future.  | Action should be taken to recover the balance due.                                       |
| (d) | The value of 02 payable accounts that were due as at December 31st of the year under review was Rs. 3,871,160, of which a balance of Rs. 613,320 was outstanding for more than 03 years. Action had not been taken to verify existence and settle the outstanding balances. | Action will be taken to verified and resolved them.  | Action should be taken to confirm the existence of outstanding balances and settle them. |

### 3.2 Idle or underutilized property, plant and equipment

	Audit Observation	Comments of the council	Recommendation
(a)	Five assets worth Rs. 25,207,560 owned by the council had been lying idle for a period of between 4 and 10 years.	The Thabbowa Sathipola site is currently being maintained as an educational center, and the Weerapura Sathipola is also being investigated for a suitable new project. A project has been initiated to obtain water from the Pura Neguma Water Project, purify it and provide water to the residents of the area at a subsidized price. A new project plan has been submitted to the North Western Local Government Department on 02 <sup>nd</sup> May 2025, including the future work of the Neelabemma project.	Council assets should be used to achieve the intended objectives.
(b)	Although the council had set up a compost yard at a cost of Rs. 3,945,375, organic fertilizer production had not been carried out from the beginning.	No comments.	Solid waste management should be carried out systematically.

### 3.3 Assets Management

Audit Observation	Comments of the council	Recommendation
The ownership of two vehicles and a motorcycle used by the council and the ownership of 63 lands, including lands where pre-schools, cemeteries, sports fields and commercial premises are located, which are controlled and maintained by the council, had not been acquired.	The Karuwalagaswewa Divisional Secretary has not yet taken Action to transfer the ownership of the lands, Requests have been made to hand over the jeep and the cab, and action have been taken to hand over the motorcycle to the North Western Provincial Water Supply and Environmental Sanitation Unit by letter dated 16 <sup>th</sup> January 2019.	Actions should be taken to take over the ownership of the assets owned by the council.

### 3.4 Human Resource Management

Audit Observation	Comments of the council	Recommendation
(a) There were 12 secondary positions and 6 primary positions vacant in the council.	The Department of Local Government has been informed in writing on 02 <sup>nd</sup> July 2024, regarding the shortage of officers in the council.	Actions should be taken to fill vacancies in positions and continue the work of the Council without delay.
(b) A distress loan of Rs.93,240 due from a transferred officer and an advance of Rs. 4,425 due from two officers who left the service had not been collected during the year under review.	Letters have been sent to one officer requesting that the remaining loan balance be paid in full, and letters have also been sent to the two officers who have left the service, informing them to pay the advance money promptly.	Action should be taken to recover outstanding employee loan balances.

## 4. Accountability and Good Governance

### 4.1 Budgetary control

Audit Observation	Comments of the council	Recommendation
(a) During the year under review, the entire provision of Rs. 7,650,000 provided for capital expenditure under 03 expenditure items in the budget estimates had not been utilized to carry out the relevant functions.	The funds allocated under these expenditure items will be used effectively to carry out the relevant tasks in the future.	Action should be taken to fulfill the estimated works annually.
(b) Out of the allocation of Rs.13,385,000 allocated for 05 expenditure votes for the	The funds allocated under these expenditure votes will be used	Action should be taken to provide better

year under review, only Rs. 2,604,625 had been spent. Accordingly, between 77 and 98 percent of the allocations for those expenditure votes were remained.

effectively to carry out the relevant tasks in the future.

services to the people by utilizing the annual allocations within the scheduled time.

## 4.2 Sustainable Development Goals

Audit Observation	Comments of the council	Recommendation
In accordance with the "United Nations Sustainable Development Agenda 2030", the Council had identified 05 Sustainable Development Goals and 06 Targets for the year 2024 and 14 projects had been implemented in the year under review to achieve the goals. No project had been implemented to achieve the objectives of building infrastructure facilities.	No comments.	Action should be taken to achieve the identified sustainable development goals.