

## Kundasale Pradeshiya Sabha - 2024

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Kundasale Pradeshiya Sabha for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 and Income and Expenditure Account, 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 sub-section 10 (1) of National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Kundasale Pradeshiya Sabha as at 31 December 2024, and of its financial performance and for the year then ended in accordance with Generally Accepted Accounting Practices

#### **1.2 Basis for Qualified opinion**

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statement.

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 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'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 Requirements**

National Audit Act No. 19 of 2018 includes 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 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**

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	Water equipment worth Rs. 4,837,105, which was handed over to the Kandy Municipal Council in the year 2020, was not removed from the accounts and was included in current assets under the stock in hand as at the end of the year under review.	That will be corrected next year.	Accounts should be prepared correctly.
(b)	Stamp duty revenue of Rs. 103,035,964 relating to the months of July to December of the year under review and court fine revenue of Rs. 1,723,010 relating to the months of September to December had not been accounted for.	That will be corrected next year.	Accounts should be prepared correctly.
(c)	As at the end of the year under review, the total expenditure on building construction and repairs amounting to Rs. 3,513,264 had not been capitalized.	-Do-	-Do-

### **1.6.2 Unreconciled Control Accounts or Records**

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
	There was a difference of Rs. 54,287,755 in total when comparing the balances of 10 account subjects shown in the financial statements with the balances shown in the supporting documents as at the end of the year under review.	Changes will be examined and corrected.	Account balances should be adjusted to match with the supporting documents.

### **1.6.3 Documentary Evidences not made available for Audit**

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
	Due to the non-submission of documents, schedules and files relating to the salary reimbursement balance of Rs. 1,650,608 shown in the financial statements, it was not possible to satisfactorily examine it during the audit.	It will be corrected in the future	Accurate records and schedules should be maintained regarding salary reimbursement.

## 1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

	<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>(a) Acts of Parliament</b>				
(i)	Rating and Valuation Ordinance No. 30 of 1946 Section 20	Although the valuation of properties related to rates should be carried out once every 5 years, Rates had been levied for the year under review based on the valuation report carried out in 2016.	Action should be taken to assess it in the future.	Property should be assessed and rates should be charged from time to time.
(ii)	Pradeshia Sabha Act No. 15 of 1987 Section 19 (1) (xiii)	The four-storey Mantara building and the building on Rajapola land of the Sabha had been leased for a long term for Rs. 33,234,556 without the permission of the Minister.	It has been leased out in accordance with the Local Government Commissioner's circular.	Action should be taken in accordance with the provisions of the Act.
(iii)	The Local Government (Standard By-Laws) Act, No. 06 of 1952, published in the Gazette No. 1955/7 dated 23 February 2015 By-law on parking of three-wheelers	Three-wheeler parking fees of Rs. 3,387,845 had not been collected from the three-wheeler parking lots located within the Sabha area from the year 2010 to the year under review.	That action will be taken to recover it.	Arrears of revenue should be recovered promptly.
<b>(b) Rules and Statutes</b>				
	Pradeshia Sabha (Finance and Administration) Rules, 1988			

	Section 218	A survey of lands and buildings had not been conducted as at the end of the year under review.	Survey is being carried out.	The existence of assets should be verified by conducting a survey.
(c)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
	(i) F.R. 394	Action had not been taken to settle 10 dishonoured cheques worth Rs. 156,242.	It will be looked further, and action will be taken.	Action should be taken to clear dishonoured cheques.
	(ii) F.R. 571 (3)	The lapsed deposits of Rs. 8,019,281, which were carried forward before 2019, had not been settled.	Action will be taken to settle in the future.	Lapsed deposits should be settled.

## 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 2024 amounted to Rs.110,005,496 as compared with the excess of revenue over recurrent expenditure amounted to Rs.74,705,125 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 of 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.

		2024				2023			
	Source of Revenue	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	58,718,925	60,040,290	69,753,066	47,852,100	42,815,634	33,079,249	16,686,937	57,564,875
(ii)	Rent	22,240,705	19,433,458	20,635,619	6,282,717	8,781,619	10,039,619	14,279,596	7,484,679
(iii)	License Fees	7,100,000	3,290,736	3,290,736	14,680,625	5,985,000	5,983,999	5,983,999	14,680,625
(iv)	Other revenue	137,499,000	143,522,256	212,426,624	113,734,039	213,435,979	213,435,979	29,550,426	182,638,407
		225,558,630	226,286,740	306,106,045	182,549,481	271,018,232	262,538,846	66,500,958	262,368,586

### 2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>(a) Rates</b>			
(i)	The arrears rates balance as at the end of the year under review was Rs. 45,863,254. Out of this, 2680 properties with arrears of rates exceeding Rs. 5,000 per unit, totalling Rs. 29,217,921, had not been collected in accordance with Section 158 of the Pradeshiya Sabha Act No. 15 of 1987.	Arrangement will be made to seize the property.	Arrears of revenue should be recovered promptly.
(ii)	The construction of 171 building development permits approved between 2022 and the year under review had not been followed up and rates had not been collected.	The relevant Section will be informed and action will be taken to collect the rates.	The property should be assessed and rates should be levied based on the new assessment.
<b>(b) Rent</b>			
(i)	The outstanding rent of Rs. 9,000,000 for the period 2018 to 2020 of the new four-storey building located on the old Sabha premises had not been recovered.	There are outstanding amounts, due to the request made to reduce the arrears rent up to the cost incurred for the repair work.	Arrears of rent should be collected as appropriate.
(ii)	The building in Rajapola land belonging to the Sabha was leased out in 2021 without obtaining a valuation from the Valuation Department.	The valuation reports were not received.	Assessment reports should be obtained and it should be leased out.
(iii)	The Rajarupa Pola building, which was constructed in 2015 at a cost of Rs. 8,315,957 had been leased for a long period of time from 1 <sup>st</sup> November 2021 without any notice period and a lessee had demolished the building and constructed a two-storey building of 10023 square feet on it without the approval of the Sabha. The Sabha had not taken any action in this regard.	The building can be demolished according to the agreement.	Necessary action should be taken regarding constructions carried out without approval.

## 3. Operational Review

### 3.1 Fulfilment of functions assigned by the Act

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.

	<b>Audit Observation</b> <b>Solid Waste Management</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(i)	Although a building needs to be constructed for essential purposes such as storing the collected biodegradable waste, ground waste and produced fertilizer without getting wet in the rain, providing the necessary facilities for the decomposition of ground waste to the required standard and storing the fertilizer to the required standard, in order to properly carry out the organic fertilizer process at the Aluthwatta Fertilizer Processing Center, which was started in 2016 under Japanese assistance by merging the Kundasale and Pathadumbara Pradeshiya Sabhas, and under an agreement, due to the inefficiency of the officials, the building could not be constructed as planned.	No provisions were made.	The relevant buildings and environment should be prepared so that organic fertilizer can be produced to the proper standards.
(ii)	Although the Sabha had entered into an agreement with a private company on January 28, 2021, for a pilot project to produce fuel by using polythene and plastic at the Aluthwatta solid waste project, the project was halted midway due to a dispute in the private company and the Sabha land had been excavated and prepared to install the machine at a cost of Rs. 29,782,203. Furthermore, although 4 years had passed since the contractor breached the agreement; no action had been taken regarding the breach of agreement. An electrical cable was purchased for this project on 13 <sup>th</sup> February 2024 at a cost of Rs. 800,925 and was stored in the garbage yard building. The project had not been implemented by the end of the year under review.	The project will be implemented in the future.	The planned project should be implemented under a formal agreement and supervision after resolving disputes, identifying the needs of the project, conducting a feasibility study according to a proper methodology.

### 3.2 Identified Losses

Audit Observation	Comments of the Sabha	Recommendation
The Sabha's backhoe loader, which was being used at the Aluthwatta garbage yard, had caught fire last year and caused an accident. Although Rs. 2,110,099 had been paid for the repair of the machine, Rs. 962,523 had been received as insurance compensation. In relation to the loss of Rs. 1,147,576 incurred by the Sabha, Financial Regulation 104(4) investigations had not been conducted and the responsible parties had not been identified.	The F.R. investigations have been conducted.	The recommendations of the F.R. 104(4) investigation report should be implemented and the losses should be recovered from the responsible parties.

### 3.3 Management inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The total of 03 accounts receivable balances as at 31 <sup>st</sup> December of the year under review was Rs.102,570,451. Therein, the total of account balances relating to the period between 1 to 5 years was Rs.37,031,262 and the total of account balances for more than 5 years was Rs.14,701,203.	Action will be taken to recover it.	The receivable balances should be recovered.
(b) As at 31 <sup>st</sup> December of the year under review, an age analysis had not been submitted for the balance of Rs. 179,742,976 in the expense creditor and projects creditors and those balances had not been settled.	It will be looked for and take action in the future.	The payable balances should be settled.
(c) After 2016, the newly developed areas in the Sabha area had not been identified, published in the Gazette and rates had not been levied.	Relevant work will be carried out in the future once the Sabha is established.	Developed areas should be gazetted and revenue should be collected.



### 3.4 Idle or underutilized Property, Plant and Equipment

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	A cab worth Rs. 4,500,000 had been idle without use since 2012.	It had been inquired the Line Ministry.	Arrangements should be made to transfer it to an appropriate government agency or to use it.
(b)	The sewerage treatment system constructed at the Aluthwatta Garbage Yard at a cost of Rs. 46 million in 2021 had not been implemented by the end of the year under review.	Once the Sabha is elected, discussions will take place.	The sewerage treatment system should be implemented urgently.

### 3.5 Assets Management

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
	The ownership of 20 plots of land and 02 vehicles used by the Sabha had not been acquired.	The taken over process is being carried out.	The assets of the Sabha should be taken over legally.

### 3.6 Human Resources Management

	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	When comparing the approved staff and the actual staff, there were 08 vacancies in 06 posts and 19 excess in the Development Officer post.	The staff is not enough.	Vacancies should be filled and appropriate steps should be taken regarding excess staff.
(b)	A total of 53 road workers, health workers and health workers recruited on a contractual basis were deployed in office-based services without being deployed to their regular duties.	The staff is not enough.	Staff should be engaged in regular duties.
(c)	A loan balance of Rs. 178,471 had not been recovered from an officer who left the service in the year 2003.	Action will be taken to recover it in the future.	Outstanding loan balances should be recovered.