

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katharagama 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, the 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 Katharagama pradeshiya sabha as at 31 December 2024, and of its financial performance 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 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 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 on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation		Comments of the Council	Recommendation
(a)	As at 31st December of the year under review, the value of 03 projects that had been completed amounted to Rs. 15,044,085 and the amount of Rs. 39,583,545 incurred for the Kataragama Sathipola improvement project had not been capitalized.	It will be done to account for in the year 2025.	The value of projects should be accounted for under land and buildings.
(b)	As at 31st December of the year under review, the bill value of Rs. 9,506,717 receivable from the Regional Development Assistance Project under the Kataragama weekly market Improvement Project had not been accounted for.	-Do-	The value of bills receivable for projects should be accounted for under Industry Creditors and Industry Debtors.

1.7 Non- Compliances

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

All observations related to non-compliances with Laws, Rules, Regulations and Management decisions etc. be shown under this heading.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) By-law on Public or Private shops dated June 28, 2013.			
Section 32 and 33	As at 31 st December of the year under review, contracts had not been entered into for 156 stalls owned by the council and	The subject of the shop will be updated.	Action must be taken in accordance with the bylaws.

		the contractual period of 82 stalls had expired.		
(ii)	Sections 34(III)	206 stalls had not been assessed since 2013 and 45 stalls had not been assessed since 2015.	Shopkeepers have raised objections to the implementation of the new assessment.	Shop rents should be assessed every 5 years.
(iii)	Sections 31(III) 40	17 stalls were given to another party without calling for tenders.	It will work to correct it in the future.	Tenders should be called in all cases except at the request of the lessee or upon the death of a lessee.
(b)	Democratic Socialist Republic of Sri Lanka Financial Regulation 770(4)	From 2018 to 2025, 06 vehicles that had been inactive for a period of time had not been repaired and put into use.	That step will be taken to obtain recommendations from the Provincial Mechanical Director regarding future actions regarding these vehicles.	Inactive vehicles should be repaired and put into use.

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. 32,216,491 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 4,944,418 in the preceding year.

2.2 Financial Control

	Audit Observation	Comments of the Council	Recommendation
(a)	According to the bank reconciliation statement prepared by the Pradeshiya Sabha as at 31st December of the year under review, no action had been taken regarding unidentified receipts of Rs. 129,522 from the year 2013 to the year 2024.	Not submitted.	Unidentified receipts should be verified by contacting the bank.

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| (b) | According to the bank reconciliation statement of the Pradeshiya Sabha as on 31st December of the year under review, incorrect debits amounting to Rs. 22,580 had been detected in 06 instances and no action had been taken to correct them. | Not submitted. | Action should be taken to correct incorrect debits. |
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2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

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

	Audit Observation	Comments of the Council	Recommendation
(a)	Out of the total revenue billed in the year under review of Rs. 68,166,698, Rs. 21,678,104 had not been collected by the end of the year, which was 32 percent of the total billed revenue.	That step will be taken to recover the outstanding revenue in the future.	Action should be taken to recover the arrears of revenue in accordance with the provisions of the Act.
(b)	As at 01 st January of the year under review, the outstanding assessment tax balance relating to previous years was Rs. 18,124,400 and only 17 percent, that is Rs. 3,092,998, had been received during the year.	Steps have been taken to recover the arrears of assessment tax.	-Do-
(c)	Rent Income		
(i)	As at 01 st January of the year under review, the outstanding shop rental income relating to previous years was Rs. 13,960,867 and 16 percent, that is Rs. 2,307,000, had been received during the year.	That legal action has been taken.	-Do-
(ii)	As at 01 st January of the year under review, the revenue from parking tenders relating to previous years was Rs. 25,288,369 and only 17 percent of the outstanding revenue, that is Rs. 4,406,115, had been received during the year. Accordingly, 83 percent, that is Rs. 20,882,254, remained to be collected.	-Do-	-Do-
(iii)	As at 01 st January of the year under review, the rent for the weekly fair tenders relating to previous years was Rs. 1,612,777 and only 51	That step will be taken to recover the outstanding amounts in the future.	-Do-

percent, that is only Rs. 817,623, had been received during the year.

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| (iv) | As at 01st January of the year under review, the outstanding revenue from public toilet tendering from 2016 to 2023 was Rs. 5,945,757 and only 18 percent, that is Rs. 1,041,653, had been received during the year. | -Do- | -Do- |
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(d) **Other Revenue**

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| The outstanding notice board fees of Rs. 2,533,237, which were due to the Pradeshiya Sabha from the year 2021 to the year 2024, had not been recovered as of December 31 of the year under review. | -Do- | -Do- |
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3. Operational Review

3.1 Management Inefficiencies

Audit Observation		Comments of the Council	Recommendation
(a)	A census had not been conducted regarding the street lights maintained by the council, and the number of street lights owned by the council and their locations had not been identified.	A census will be conducted regarding street lights in 2025.	A census should be taken regarding street lights.
(b)	Although 200 roads owned by the Council had been inventoried, they had not been gazetted and transferred to the Council by 31st December of the year under review.	Steps will be taken to publish in the Gazette the roads owned by the Pradeshiya Sabha and take them over to the Sabha.	That will take steps to conduct a road inventory and publish it in the Gazette.
(c)	85 building plans approved from 2018 to 2020 had not been inspected and certificates of compliance had not been issued.	Currently, work is being carried out in accordance with the Urban Development Act.	Building construction should be regulated.

3.2 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	The Pradeshiya Sabha had not taken steps to transfer ownership of 58 lands and buildings worth Rs. 509,863,561 to the Council.	Requests have been made to institutions regarding takeover.	Steps should be taken to promptly acquire ownership of lands and buildings.
(b)	In previous periods, 14 properties worth Rs. 263,593,167 owned by the Council had been acquired by external parties and no steps had been taken to legally take over those properties from the Council.	-Do-	-Do-

3.3 Human Resources Management

	Audit Observation	Comments of the Council	Recommendation
(a)	As at 31 st December of the year under review, there was a shortage of 29 employees in relation to 15 posts in the Council.	The Local Government Commissioner has been informed regarding the vacancies.	Action should be taken to overcome staff shortages.
(b)	As at 31 st December of the year under review, Rs. 675,637 was due from 29 employees who had transferred, retired, suspended, left the service and died.	That have been notified in writing to make the payment.	Action should be taken to recover outstanding balances.

3.4 Apparent Misappropriations

Audit Observation	Comments of the Council	Recommendation
The Pradeshiya Sabha had conducted a commodity survey for the previous year on 07 th May of the year under review and during that commodity survey, deficiencies of 850 units of 64 types of goods had been identified. However, as of December 31 of the year under review, the responsible parties had not been identified and relevant action had not been taken in this regard.	That the officers directly responsible have been informed in writing.	Responsible parties should be identified and action taken regarding commodity shortages.

4. Accountability and Good Governance
4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure according to the budget prepared by the Pradeshiya Sabha for the year under review with the actual income and expenditure for the year, there were variations ranging from 15 percent to 103 percent in 08 income items and from 24 percent to 84 percent in 05 expenditure items.	Those steps will be taken to prepare the budget properly in the future.	The budget document should be recognized as an effective control instrument.