

Kahawatta Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kahawatta Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 Statement of Financial performance, Cash Flow Statement ,Statement of changes in equity 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 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 Kahawatta Pradeshiya Sabha as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the financial statement based 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'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 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.

- (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)	08 lands of 08 acres 12 roods 22 perches that had been donated to the sabha had not been assessed and accounted.	Action will be taken to correct it.	Must be accounted for correctly.
(b)	Due to the undercapitalization of Rs. 256,518 in the value of 02 development projects implemented during the year under review, Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated by that value.	Action will be taken to correct it.	Must be accounted for correctly.
(c)	Since consumables worth Rs. 56,300 were accounted for as non-current assets, the balance of the Non-Current Assets and Contribution from Revenue to Capital Outlay Account was overstated by that value.	Action will be taken to correct it.	Must be accounted for correctly.
(d)	Due to the fact that the creditor balances of Rs. 1,598,000 relating to 03 industries that had been cancelled during the year under review had not been removed from the accounts, current liabilities were shown to be higher and accumulated funds were shown to be lower by that value.	Action will be taken to correct it.	Must be accounted for correctly.

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| (e) | Due to the capitalization of Rs. 1,660,000 spent on the repair of quarters, the balance of the Non-Current Assets and Contribution from revenue to Capital outlay Account was overstated by that amount. | (d) Action will be taken to correct it. | Must be accounted for correctly. |
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1.7 Non- Compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

	Reference to Laws, Rules Regulations etc.	Audit Observation	Comments of the Council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 371(5)	04 advances of Rs. 264,178 given in the year 2011 and 2024 had not been settled up to the end of the year under review.	That arrangement are being made to settle the advance.	Financial regulations must be followed.
(b)	National Budget Circular No. 02/2017 dated 25th July 2017	The output indicators and key performance indicators relevant to the completion of the organizational function had not been identified.	Work will be done to prepare completion indicators and performance indicators in the future.	Action should be taken in accordance with the National Budget Circular.
(c)	Asset Management Circular No. 05/2020 dated 02 October 2020	03 vehicles and 04 tractor trailers were undriveable condition had not been completed of disposal .	The special survey report to identify the misuse of the relevant vehicles has been forwarded to the Commissioner of Local Government.	Action should be taken in accordance with the Asset Management Circular.

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. 9,259,345 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 14,089,616 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 submitted by the Secretary, the following is the information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year.

Source of revenue	2024				2023			
	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	5,465,484	5,646,192	5,768,850	1,406,755	4,720,912	5,274,126	5,187,883	1,533,354
Rent	12,307,300	11,514,780	11,574,465	688,719	10,388,400	11,352,635	11,378,240	772,419
License fees	1,120,000	1,214,207	1,223,507		1,264,000	1,068,185	1,050,585	-
Other Revenue	<u>2,414,000</u>	<u>2,331,304</u>	<u>1,550,343</u>	<u>867,803</u>	<u>3,509,000</u>	<u>2,183,410</u>	<u>2,445,052</u>	<u>-</u>
Total	<u>21,306,784</u>	<u>20,706,483</u>	<u>20,117,165</u>	<u>2,963,277</u>	<u>19,882,312</u>	<u>19,878,356</u>	<u>20,061,760</u>	<u>2,305,773</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) The outstanding assessment balance of Rs. 969,271 as at the end of the year under review included 42 assessment units totalling Rs. 155,054 which were overdue for more than 05 years.	It is expected that the property owners will be identified and action will be taken in accordance with the Pradeshiya Sabha Act.	Action should be taken to recover the arrears of assessments.
(b) The outstanding acreage tax balance of Rs. 82,181 as at the end of the year under review included Rs. 74,848 due from 74 units that had been in existence for more than 05 years.	An investigation is underway regarding this acreage tax unit.	Action should be taken to settle the arrears of revenue.
(c) The arrears of shop rent Rs. 468,225 relating to the public market for the year under review and the previous 02 years had not been recovered.	Steps will be taken to seal shops that have not paid rent and take legal action.	Action should be taken to recover the arrears of revenue.
(d) Although 04 telephone transmission towers approved by the Telecommunications Regulatory Commission of Sri Lanka had been installed within	Inquiries have been made through letters to the companies that carried out the construction and it is expected that the relevant	Construction within the sabha's domain should be regulated.

the sabha's domain, sabha approval had not been obtained for the construction and preliminary fees had not been collected.	preliminary fees will be charged as soon as a response is received.
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3.

Operational Review

3.1

Performing of Functions Enacted 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.

3.1.1

Performance

(a)

By-laws

Audit Observation	Comments of the Council	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, by-laws were to be enacted to carry out 30 main matters, but by-laws had not been enacted for 14 matters as at 31 st December 2024.	By-laws have already been drafted for these matters and once the board of members is appointed, steps will be taken to present those drafts to the sabha and have them passed.	Action should be taken in accordance with Section 126 of the Pradeshiya Sabha Act.

(b)

Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
Although the Kahawatta Plantation Company had agreed in 2024 to hand over 1.5 acres of land to the sabha where the waste would be disposed of, the relevant acquisition activities had not been completed by December 2024. Therefore, it had not been possible to plan and implement a formal waste management program and the collected biodegradable waste was being dumped in pits.	Once the land is legally released, the biodegradable waste will be used to produce compost, thereby reducing the amount of waste disposed of on the land.	The land should be takeover and a formal waste management project should be planned and implemented.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The Rs. 94,250 due for the removal of dangerous trees had not been recovered as at April 2025.	It has been agreed to pay the amount of Rs. 19,250 due in installments and that steps will be taken to recover the remaining amount of Rs. 75,000 from the Land Reforms Commission.	Action should be taken to recover the relevant fees.
(b) Detailed schedules had not been prepared for 04 accounting items totaling Rs. 152,957,422 as shown in the financial statements.	That step will be taken to update the fixed asset register with detailed information.	Detailed schedules should be prepared.