

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalawana Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and Statement of Finance Operation, 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 Kalawana 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 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.

- 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.
- 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)	The value of 05 construction industries had been capitalized by Rs. 76,607 more.	That action has been taken to correct it.	Capital expenditure must be accounted for correctly.
(b)	No provision had been made for audit fees for the year under review.	That it was missed by mistake.	Proper allocations should be made for expenses to be paid.
(c)	The stock of Ayurvedic medicines as at 31 st December of 2024 was under-accounted for by Rs. 215,260.	That corrections will be made when preparing the financial statements for the year 2025.	The stock must be accounted for correctly.
(d)	The general and electrical storage stocks worth Rs. 1,071,746 as at 31 December 2024 had not been accounted.	That Will be correct when preparing financial statements in the year 2025.	The stock balances must be accounted for correctly.
(e)	The court fine income receivable at the end of the year under review had been under-accounted by Rs. 272,250.	That a correction will be made when preparing the final accounts for the year 2025.	Income must be accounted for correctly.

(f)	Rs. 272,292 paid for vehicle insurance for the coming year had been accounted for as an expense in the year under review.	That steps will be taken to prevent such mistakes from happening in the future.	Prepaid payments must be accounted for correctly.
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1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 36,810,930 between the balances as per the financial statements and the balances as per the supporting documents at the end of the year under review in relation to 13 accounting items.	Changes from the past few years have now been identified, and those changes will be corrected when preparing the 2025 financial statements.	The reasons for the difference must be identified and corrected.

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. 10,445,855 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 2,358,683 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 income	<u>2024</u>				<u>2023</u>			
	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	3,339,895	3,525,394	3,901,235	3,055,790	3,463,645	3,570,625	3,268,829	3,643,614
Rent	11,547,930	11,514,259	11,086,785	15,033,176	8,232,800	8,271,682	6,831,959	14,205,431
License fees	982,860	940,595	940,595	-	1,011,500	1,089,635	1,089,635	-
Other Revenue	<u>5,366,000</u>	<u>5,966,132</u>	<u>6,997,052</u>	<u>-</u>	<u>3,875,400</u>	<u>4,546,226</u>	<u>4,534,314</u>	<u>-</u>
	<u>21,236,685</u>	<u>21,946,380</u>	<u>22,925,667</u>	<u>18,088,966</u>	<u>16,583,345</u>	<u>17,478,168</u>	<u>15,724,737</u>	<u>17,849,045</u>

2.2.2 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) The arears of assessment balance of Rs. 1,189,934 as at the end of the year under review included 53 assessment units with a total of Rs. 563,788 arears for more than 05 years.	A property prohibit program will be implemented to recover arears of assessments.	Action should be taken to collect the arears of outstanding revenue.
(b) Although the Council had decided that it was appropriate to designate 04 areas identified in the year 2021 as developed rural areas, the relevant work to collect assessment tax from those areas had not been completed by the end of the year under review.	That steps will be taken to rectify the existing deficiencies and collect the assessments promptly.	The work related to collecting assessment taxes should be made efficient.
(c) The arrears acreage tax balance of Rs. 292,257 as at the end of the year under review included Rs. 285,864 due from 341 units that had been in existence for more than 03 years.	That steps will be taken to recover the relevant arrears promptly.	Action should be taken to collect the arrears revenue.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Asset registers relating to 04 non-current asset account items totaling Rs. 127,132,126 had not been maintained up to date.	Work is currently underway to update and maintain the documents.	Asset registers must be maintained up to date.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although the Kalawana Pradeshiya Sabha had received a one-acre plot of land for the Palindagoda Cemetery in the Pahalawakanda area through a gift deed dated 01 st of December 1997, the acquisition of that land had not been completed. Furthermore, although eviction notices had been issued to three people illegally residing there in June 2022, they had not vacated the land by April 2025.	It is expected that survey work will be carried out in the future.	The land acquisition process should be completed promptly and steps should be taken to remove the unauthorized occupants from the land.
(b) Arrangements had not been made to hand over 23 shops to the shop owners by May 2025, which had been occupied for between 3 and 5 years after the payment of the down payment (Key Money).	Steps will be taken to provide shop rooms to shop owners.	Steps should be taken to provide the relevant shops to the shop owners as soon as possible.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Steps had not been taken to transfer the ownership of 33 lands and 10 cemeteries belonging to the council to the council, and steps had not been taken to ensure the security of 40 lands and cemeteries by erecting protective fences.	Steps will be taken to accomplish this task in phases in the future, either by obtaining some funding from the Provincial Council.	Steps should be taken to take over the ownership of lands and cemeteries belonging to the council and ensure their security.
(b) A survey of a land measuring 0.1871 hectares had been carried out on 14 November 2014 to acquire the land for the Samanpura Public Cemetery, and an	It is expected that the land will be taken over by the council in the future and that the homeowners have been informed through letters	Steps should be taken to take over the land from the council and collect the rent from the two houses.

environmental recommendation had been obtained on 27th of January 2023. However, the acquisition of the relevant land to the Council had not been completed by the end of the year under review. Furthermore, although an assessment had been obtained on 16 August 2022 to collect tax from 02 houses on that land, tax had not been collected by December 2024.

to collect the tax money from the two houses.

- (c) The amount of Rs. 50,000 deposited at the Ayagama Divisional Secretariat for the acquisition of one acre of land received by the council through a gift deed for waste management purposes was returned on 26th of September 2024 due to non-fulfillment of the task.

Since the necessary steps are being taken to acquire a portion of another land for a non-biodegradable waste separation center, it was decided to receive the relevant deposit amount, considering the relevant acquisition process as a futile process.

The ownership of the land currently in the gullies must be clarified and steps must be taken to acquire a suitable land for waste management activities.

3.4 Management of Vehicle fleet

Audit Observation	Comments of the Council	Recommendation
(a) As of April 2025, 5 vehicles belonging to the council had been unused for between 2 and 5 years due to lack of repairs.	These vehicles have been submitted for approval by the Local Government Commissioner to be provided to the Kuruwita Development Design and Machinery Authority.	Vehicle repairs and maintenance should be carried out in a timely and systematic manner.
(b) According to the final report of the investigation into the loss due to the misplacement of 120 ampere 02 batteries in a road crusher owned by the council and the breakage of the right side window, it had been decided to recover the loss of Rs. 154,438 equally	The final report has been forwarded to the Local Government Commissioner, and once a recommendation is received, steps will be taken to recover the loss.	Action should be taken to recover the loss.

from the heavy vehicle operator, the secretary and the chairman. However, the loss had not been recovered by the end of the year under review.

4. Accountability and Good Governance

Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
None of the programs planned to achieve the Sustainable Development Goals had been implemented during the year under review.	It is expected that priority will be given to sustainable development goals in the year 2025.	Sustainable development plans should be implemented.