

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karaithivu Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Balance Sheet as at 31 December 2023, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 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 Karaithivu Pradeshiya Sabha as at 31 December 2023, 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 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 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

Audit Observations	Comments of the Council	Recommendations
(a) At the end of the review year, the loan capital payable for the Local Loan Development Fund was reduced by Rs.430,895 in the financial statement.	Steps are being taken to correct the error.	Steps should be taken to settle accounts.
(b) Sewing machines amounting to Rs.5,643,800 purchased during the year under review were not shown as fixed assets in the financial statement.	The adjustment will be made while preparing the financial statements for the next financial year.	Action should be taken to be shown under fixed assets.
(c) During the year under review, an amount of Rs.195,145 to be received from the Sri Lanka Electricity Board through solar power had not been shown as income and current assets in the financial statement.	-Do-	Action should be taken to show residual income in the financial statements.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.14,749,080 as against the excess of recurrent expenditure over revenue amounted to Rs.4,948,029 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 Sabha, information 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.

Source of Revenue	2023			Arrears as at 31 December	2022			Arrears as at 31 December
	Estimated Revenue	Revenue Billed	Revenue Collected		Estimated Revenue	Revenue billed	Revenue Collected	
	(Rs.)	(Rs.)	(Rs.)		(Rs.)	(Rs.)	(Rs.)	
i. Rates and Taxes	25,000	9,180	9,180	-	25,000	3,000	3,000	-
ii. Rent Income	8,675,000	7,690,625	6,766,985	2,699,890	8,275,000	6,353,768	4,567,470	1,786,297
iii. License Fees	850,000	1,271,240	1,271,240	-	3,355,000	3,286,750	3,286,750	-
iv. Other revenue	1,215,000	561,704	561,704	-	6,530,000	2,630,622	2,630,622	-
Total	<u>10,765,000</u>	<u>9,532,749</u>	<u>8,609,109</u>	<u>2,699,890</u>	<u>18,185,000</u>	<u>12,274,140</u>	<u>10,487,842</u>	<u>1,786,297</u>

2.2.2 Performance in Revenue Collection

The observations regarding performance in all revenue collection of the Sabha is shown below.

Audit Observations	Comments of the Council	Recommendations
(a) Night market and beach park rents recievable at the last year and end of the under reviewed was Rs 75,843 and which remained from 1 to 15 years without recovery.	Legal action will be taken once the approval of the Local Government Commissioner is obtained. Also, steps have been taken to reduce the number of deaths.	Steps should be taken to recover the dues promptly.
(b) The amount due from leasing of meat stalls on tendors at the last year and the end of the year under review was Rs 2,008,592 out of that a sum of Rs 1,026,520 had to be collected from 27 meat stalls tenants for more than 2 to 33 years.	Unable to match due to missing details of specific tenants. Accordingly, action will be taken as per the letter of the Local Government Commissioner.	-Do-

3. Operational Review

3.1 Management Inefficiencies

Audit Observations

The council has seen a reserve bank balance of Rs 16,755,854 from the beginning of 2018 to the end of 2023, but no action had been taken to involve the council in sources of income.

Comments of the Council

Consideration will be given to the matter when better investment opportunities arise in the future.

Recommendations

Actions should be taken to invest surplus funds into appropriate sources to achieve the objectives of the council.

3.2 Assets Management

Audit Observation

(a) The values of land, buildings and 29 vehicles owned and used by the council have not been reassessed and their actual value has not been calculated.

Comments of the Council

Steps will be taken to reassess the values in future.

Recommendation

Actions should be taken to revalue assets.

(b) For more than 06 years no action had been taken by the council to repair and reuse 04 lorries, 04 plowing machines and 02 motorcycles owned by the council or to sell them at auction.

As soon as funds are available, steps will be taken to repair and other vehicles will be auctioned.

Action should be taken to repair and reuse or sell it at auction.

(c) Up to the date of audit, no action had been taken to transfer the land where the office building of the council, the cultural hall, the public market building land and the land where the solid waste station is located to the name of the council.

A series of actions are being taken in this regard.

Urgent action should be taken to transfer ownership of properties to the name of the council.

(d) Equipment for starting a small garment factory was purchased by the council for Rs.20,008,933, but the quality recommended by the technical evaluation committee was not tested and the materials were obtained.

Steps will be taken to obtain the report from the Mechanical Engineer.

The technical evaluation team and the acquisition team should jointly confirm and take responsibility for new equipment.

(e) Action had not been taken by the council to rent out 14 shophouses in the shop blocks handed over to the council in 2009 at a cost of Rs 14,347,200 under the North East Coastal Community Development Project.

That no one came forward to rent the stalls due to the low number of customers at the place.

Steps should be taken to create new systems and rent out all the shops.

3.3 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
The Sabha has not taken action to recover the outstanding loan balances of Rs. 32,860 from those persons or from the guarantors since 2006.	Debt balances have been determined to be collected from creditors and the balances to be written off.	Action should be taken to recover from the appropriate person or from the guarantors.