

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Kalawana Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, cash flow statement, statement of changes in equity, significant accounting policies and the summary of other explanatory 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 the 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 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 accompanying financial statements give a true and fair view of the financial position of the Kalawana 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**

My opinion is qualified 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 Responsibility for the Audit of 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 the parties in charge of governance on 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 in charge of governance are responsible for overseeing the financial reporting process of the Pradeshiya Sabha.

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

**1.4 Audit Scope (Auditor's Responsibility 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 exercise professional judgment and maintain professional skepticism 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 the 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 contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 the Pradeshiya Sabha 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**

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year.

- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (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) Development Projects worth Rs.5,821,876 had not been capitalized.	Corrections will be made in the financial statements of the year 2024.	Accounting should be done correctly.
(b) The motor vehicles with a value of Rs.12,835,000 had been included in the equipment and machine balance.	-Do-	-Do-
(c) According to the land and building register, the value of the Pradeshiya Sabha building had been indicated in the financial statements Rs.27,471,000 less than the building value.	-Do-	-Do-
(d) The value of Pradeshiya Sabha-owned 65 buildings of which the extent could not be identified and the buildings located therein had not been assessed and accounted.	-Do-	-Do-
(e) The shop rental income related to the year under review had been under-accounted by Rs.170,200.	-Do-	-Do-
(f) Rental arrears of Rs.224,395 for outdoor shops had not been accounted.	-Do-	-Do-
(g) According to the statement of financial position, there was a difference of Rs.100,000 between the claim balance as at 31 December 2023 and the statement of changes in net assets.	-Do-	-Do-
(h) There was a difference of Rs.17,023,067 between the balances of 09 accounting subjects as at 31 December 2023 according to the financial statements and the balances as at the said date according to the documents used.	Financial Statements will be prepared in future rectifying the subsidiary documents.	The reasons for the difference should be identified and solved.

## 1.7 Non-compliance

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

Audit Observation	Comments of the Council	Recommendation
(a) In contrast to the Financial Regulation 177 (1), remitting a sum of Rs.317,204 collected by the Revenue Officers in September 2023 had been delayed till the month of January 2024.	Full amount had been charged. The Local Government Commissioner had been informed to take further action regarding the officer.	The proceedings should be made as per the Financial Regulations.
(b) The required measures had not been taken in respect of 37 development licenses that were not extended again.	License holders have been informed regarding this matter.	The proceedings should be made as per the Urban Development Authority Act.

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements submitted, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2023 was Rs.2,358,684 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs.5,106,350.

### 2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
The dishonored cheque of Rs.47,340 brought forward from many previous years had not been identified and cleared.	The actions will be taken to settle immediately.	That matter should be settled immediately.

### 2.3 Revenue Administration

#### 2.3.1 Estimated income, billed income, collected income and arrears of income

According to the particulars submitted by the Secretary, the particulars about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year are given below.

2023

2022

Income Source	Estimated income	Billed income	Collected income	Total deficit as at 31 December	Estimated income	Billed income	Collected income	Total deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	3,463,645	3,570,625	3,268,829	3,643,614	4,192,877	3,289,245	2,930,594	3,633,626
Rentals	8,232,800	8,271,682	6,831,959	14,205,431	9,941,213	10,396,796	8,169,855	12,593,822
License fee	1,011,500	1,089,635	1,089,635	-	1,541,790	7,731,571	7,731,571	-
Other income	<u>3,875,400</u>	<u>4,546,226</u>	<u>4,534,314</u>	-	<u>3,064,607</u>	<u>3,956,448</u>	<u>3,956,448</u>	-
	<u>16,583,345</u>	<u>17,478,168</u>	<u>15,724,737</u>	<u>17,849,045</u>	<u>18,740,487</u>	<u>25,374,060</u>	<u>22,788,468</u>	<u>16,227,448</u>

### 2.3.2 Performance of the Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) There is a balance of Rs.878,621 older than 05 years in the outstanding assessment balance of Rs.1,652,455 as at the end date of the year under review.	The final notices have been issued. The proceedings for the properties having further arrears will be carried out as per the Act.	Arrears should be collected promptly.
(b) There is a balance of Rs.599,828 older than 03 years within the outstanding acre tax balance of Rs.615,761.	The arrangements will be made to collect the acre tax arrears.	-Do-
(c) A sum of Rs.464,947 due from meat and fish shops had not been collected.	The said money will be collected immediately.	-Do-
(d) A sum of Rs.673,150 to be levied for 72 notice boards belonged to 34 institutions had not been collected even by the end of the year under review.	The letters informing the institutions have already been sent.	-Do-
(e) The charges of Rs.319,000 related to the year under review and the previous year had not been collected from 133 three-wheelers belonging to 05 three-wheeler associations.	The inactive members whose names are not in the register were removed. Rs.56,400 has been collected from the arrears existed so far.	-Do-

### 3. Operational Review

#### 3.1 Solid Waste Management

##### Audit Observation

About 1080 metric tons of waste had been disposed in the year 2023 without following proper and environmentally friendly methods. Also, the baler machine worth Rs.950,000 received in August 2022 remained idle even by January 2024.

##### Comments of the Council

It is expected to build a waste sorting center and to use the baler machine.

##### Recommendation

A formal waste management program should be implemented.

#### 3.2 Informal Transactions

##### Audit Observation

While the Acting Secretary of the Pradeshiya Sabha had been paid Rs.114,345 as the acting allowance for the period from January to November 2023, the combine allowances at a value of Rs.60,500 had also been paid for the days he came to the Pradeshiya Sabha for acting duties.

##### Comments of the Council

Taking acting allowance is not a barrier to get combine allowances or travelling expenses.

##### Recommendation

An officer who gets the acting allowance should not be paid with the combine allowances for the said duty.

#### 3.3 Assets Management

##### Audit Observation

Although 124 perches out of 160 perches in Pahalakanda, Palindagoda cemetery had been acquired by trespassers since 1997, any legal action has not been taken against it so far.

##### Comments of the Council

The legal advice has been obtained and the proceedings will be done accordingly.

##### Recommendation

Legal actions should be taken to remove the trespassers.

#### 3.4 Difficiencies in Contract Administration

##### Audit Observation

(a) A sum of Rs.75,738 had been paid as price variations for an industry less than

##### Comments of the Council

The actions will be taken to recover the

##### Recommendation

The arrangements should be made to

03 months in contrast to the Section 5.4.2 of the Procurement Guideline. As the permission was not granted by the Kukulegama Hydroelectric Power Plant to access the said gully tank which was completed in 2022, a sum of Rs.902,100 incurred on that had been an idle expense and the sewage disposal problem had also not been resolved.

amount overpaid from the concerned party. The disposal of gullies for gully pit has been started from April 2024.

recover the amount overpaid and utilize the assets.

(b) Rs.15,543 had been paid in excess during the development of the Kanegala Puwakpalaketihena road.

The amount paid will be refunded.

The amount overpaid should be refunded.

### 3.5 Vehicle System Management

#### **Audit Observation**

#### **Comments of the Council**

#### **Recommendation**

05 Tractors that can be repaired remain unused for a period from 06 months to 03 years.

The arrangements will be taken to repair upon the receipt of provisions.

The assets should not be left unused.