

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karuwalagaswewa 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 operation, statement of the changes in net assets, cash flow statement 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 Subsection 172 (1) of the Pradeshiya Sabha Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Karuwalagaswewa Pradeshiya Sabha as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements

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 this 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 financial reporting process of the Pradeshiya Sabha.

As per Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism throughout the audit. I also:

- Designed and performed the appropriate audit procedures, identified and assessed the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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 the Pradeshiya Sabha has performed according to its powers, functions and duties; and

- Whether the resources of the Pradeshia Sabha had been procured and utilized economically, efficiently and effectively within the timeframes and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- The Financial Statements presented are consistent with that of the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required by 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	Comment of the Secretary	Recommendation
(a) The land worth Rs.5,100,000 that had been acquired in the year under review had not been accounted under fixed assets.	The actions will be taken to rectify by the journal notes.	The actions should be taken to rectify.
(b) The revalued value of the lands; Rs. 5,577,006, had not been accounted.	Do	Do
(c) The machines and equipment worth Rs.134,700 had not been accounted under fixed assets.	Do	Do
(d) The allocation of audit fee deficit of Rs.40,952 related to the previous year had been adjusted to the creditor account instead of making adjustments to the respective expenditure account.	Do	Do
(e) The revalued value of a Jeep 2644 was Rs. 2,500,000 and the said value had not been accounted.	Do	Do

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Secretary	Recommendation
The overdue water tax balance as per the financial statements as at 31 December of the year under review was Rs.2,593,303, and since it was Rs. 2,620,413 as per the schedules, there was a disparity of Rs. 27,110.	The actions will be taken to rectify these activities in future.	The reasons for the disparity should be examined and the actions should be taken to rectify.

1.6.3 Absence of written evidences for the audit

Audit Observation	Comment of the Secretary	Recommendation
Due to the unavailability of 02 account balances amounting to Rs.332,155, schedules and other evidences related thereto, a satisfactory examination could not be done in the audit.	Pradeshiya Sabha does not have any information in relation to this.	The written evidences that can prove the account balances shown in the financial statements should be presented.

1.7 Non-compliance

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

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

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Secretary	Recommendation
(a) Pradeshiya Sabha (Financial and Administrative) Rules 1988			
(i) Rule No.5(3)	An adequate internal inspection had not been done on the revenue collection.	The actions have been taken to collect the revenues.	The proceedings should be done as per Rules.
(ii) Rule No.5(6)	All the revenues and other fees to be levied to the Pradeshiya Sabha had not been collected by the	The actions will be taken to collect all the revenues in future.	- Do -

concerned officers within the due period.

(b) Regularizing of Community Based Organizations (Water Supply and Environmental Sanitation) Statue No. 01 of 2013	The registration and supervision of Community Based Organizations had been assigned to the Local Government Authority of the said area, the actions had not been taken by the Pradeshiya Sabha to register 16 out of the community based organizations; that had been established in the area, in the Water Supply and Environmental Sanitation Unit of North Western Province.	The actions will be taken in future to register in Water Supply and Environmental Sanitation Unit of North Western Province.	The proceedings should be done as per the Ordinance.
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2. Financial Review

2.1 Financial Results

According to the financial statements submitted, the income exceeding the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2023 was Rs. 5,769,980 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 1,791,535.

2.2 Revenue Administration

2.2.1 Estimated income, billed income, collected income and arrears of income

As per the information presented 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.

Income Source	2023				2022			
	Estimated income	Billed income	Collected income	Total deficit as at 31 December	Estimated income	Billed income	Collected income	Total deficit as at 31 December
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	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	9,813	12,425	9,125	3,203	8,797	8,452	5,116	3,159
Rents	6,024	2,019	1,929	641	4,303	2,137	1,936	1,240
License Fees	204	201	201	-	179	73	73	-
Other income	<u>45,718</u>	<u>37,216</u>	<u>37,216</u>	-	<u>34,407</u>	<u>36,691</u>	<u>36,691</u>	<u>1,023</u>
Total	<u>61,759</u>	<u>51,861</u>	<u>48,471</u>	<u>3,844</u>	<u>47,686</u>	<u>47,353</u>	<u>43,816</u>	<u>5,422</u>

2.2.2 Performance in Collecting Revenue

Audit Observation	Comment of the Secretary	Recommendation
(a) The assessment taxes of Rs. 583,317, water tariffs of Rs. 2,620,413 and rents of Rs. 641,395 overdue as at 31 December of the year under review had not been collected.	The overdue amounts will be collected.	The overdue revenues should be collected immediately.
(b) A sum of Rs. 264,026 was to be collected from 65 consumers whose water connection had been disconnected.	The legal actions have been unable to be taken as the required documents have not properly been maintained.	The legal actions should be taken to collect the overdue amounts.

3. Operation Review

3.1 Identified Deficiencies

Audit Observation	Comment of the Secretary	Recommendation
The Pradeshiya Sabha failed to physically present the remaining water pipe devices in hand worth Rs. 860,201 of the Karuwalagaswewa New Water Project that had been shown in the machines and equipment balance as at 31 December on the year under review.	No answer has been given.	The balance of the water pipe devices remaining in hand should be able to be presented physically.

3.2 Management Inefficiencies

Audit Observation	Comment of the Secretary	Recommendation
(a) An amount of Rs. 74,277 remained idle in Naththandiya Branch of the National Savings Bank as at 31 December of the year under review.	The actions will be taken to proceed with further activities.	The arrangements should be made to settle the account.
(b) As 24 industries that should obtain environmental licenses did not obtain licenses from the year 2015 and the required actions were not done regarding that matter, the responsibility of the Pradeshiya Sabha had been neglected.	A field inspection will be done to confirm the establishment of the business and the actions will be taken to provide the licenses.	The overdue revenues should be collected.
(c) Even though the materials worth Rs. 404,895 have been issued from the stock balance of the water-related equipment warehouse without issuance orders in the year under review, such materials had been difficult to be identified.	The actions will be taken in future to issue the warehouse goods through the issuance orders.	The actions should be taken to issue the warehouse goods through the issuance orders.
(d) The value of 02 account balances to be received as at 31 December of the year under review was Rs. 10,011,592, and the value of the balances included therein and exceeded 03 years was Rs. 160,458.	The actions are being taken to collect the overdue amounts.	The overdue amounts should be collected immediately.
(e) The value of 02 account balances to be paid as at 31 December of the year under review was Rs. 11,081,129, and it included a balance of Rs. 101,363 that exceeded 03 years.	The reminding letters will be sent again and the actions will be taken to release the respective withholding amount.	The creditors should take actions to settle immediately.

3.3 Operational Inefficiencies

Audit Observation	Comment of the Secretary	Recommendation
(a) Although the valuated assessment taxes should be revised once in 05 years, the assessment taxes had been collected even for the year 2023 based on the valuation of the assessment tax carried out within the Pradeshiya Sabha area in the year 2015.	The arrangements will be made to carry out an assessment tax valuation.	The assessment tax should be revised.

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| (b) | A large number of water pipe devices; of which a value was not mentioned, remained at the end of the Puraneguma project implemented under the State Ministry of Provincial Council and Local Government had been handed over to the Pradeshiya Sabha and the value of the said water pipe devices had not been calculated and inventoried. | The actions will be taken to inventory the equipment. | The actions should be taken to inventory the equipment. |
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3.4 Idle or under-utilized Property, Plants and Equipment

Audit Observation	Comment of the Secretary	Recommendation
(a) Since Medagama Children’s Park constructed by the Divisional Secretariat and transferred to the Pradeshiya Sabha was not used for more than 16 years, it had been severely weed-grown. Consequently, the sport equipment therein was with a risk of being damaged by the natural perils.	The relevant proceedings will be done to transfer the Children’s Park to a Pre-school.	The maintenance activities should be done properly.
(b) 04 assets owned by the Pradeshiya Sabha amounting to a value of Rs.21,262,185 remained idle.	The required further proceedings are being done.	The systems should be prepared and implemented to get the maximum use from the available resource.

3.5 Assets Management

Audit Observation	Comment of the Secretary	Recommendation
The legal ownership of lands wherein the buildings owned by the Pradeshiya Sabha have been situated, playgrounds being possessed, administered and maintained by the Pradeshiya Sabha and lands in which the community halls are situated and 65 cemeteries had not been acquired.	The actions will be taken to acquire in future.	The actions should be taken immediately to acquire the legal ownership.

3.6 Deficiencies in Contract Management

Audit Observation	Comment of the Secretary	Recommendation
(a) 08 projects worth Rs. 16,728,062 had been given to Karuwalagaswewa Multi-purpose Cooperative Society by the Pradeshiya Sabha and all those had been sub-contracted by the Cooperative Society.	Our institution has not given a power to the respective institution to sub-contract the project.	The required actions should be taken in respect of sub-contracting the projects without a power.
(b) In the preparation of damaged culverts spending the provision of Rs. 1,000,000 received from the Department of Local Government, the Hume Pipes had been purchased at an expense of Rs.994,000 without identifying the locations.	No answer has not been given.	The purchases should be done after identifying the requirement.

3.7 Human Resource Management

Audit Observation	Comment of the Secretary	Recommendation
01 post in tertiary level, 08 posts in secondary level and 09 posts in primary level of the Pradeshiya Sabha had been vacant as at 31 December of the year under review.	The actions will be taken in future to complete the existing employee vacancies.	The number of employees required by the Pradeshiya Sabha should be accurately identified and the actions should be taken to get approval to the said number of employees.

3.8 Vehicle System Management

Audit Observation	Comment of the Secretary	Recommendation
(a) The running charts for a period of 01 year and 01 month from 30 August 2022 to 08 October 2023 related to the Motor Grader of the Pradeshiya Sabha had not been presented and the Motor Grader had been run for 86 hours during the above period as per the Milometer.	The Motor Grader was not in the working condition during this period.	The record related to the running should be written correctly.

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| (b) | As there were 890 liters without any records, 325 liters noted as resources and 478 liters with fuel order numbers in the inclusion of fuel to the running chart of the Motor Grader of the Pradeshiya Sabha, the running charts had been prepared entering the details of fuel without supervision. | As the Driver is abroad, making an inquiry is not possible. | The notes should be recorded correctly in the running chart. |
| (c) | The daily running charts of the Water Bowser of the Pradeshiya Sabha had not been balanced and the number of miles indicated in the Milo Meter had also not been mentioned. | A request related to the fuel-checking of the Bowser LP-3256 has already been referred to the Mechanical Engineer and the Driver was instructed to record the meter indicated in the Milo Meter when writing the running charts. | The fuel should be balanced correctly. |

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation

Although a sum of Rs. 6,182,625 had been spent for the fulfillment of 05 different tasks stated in the Action Plan, the expected status of completion had not been achieved.

Comment of the Secretary

The expected output could not be gained corresponding to the quantity of money spent.

Recommendation

The actions should be taken to implement the relevant programs as per the Action Plan and to gain the output level.

4.2 Sustainable Development Objectives

Audit Observation

As per the “The United Nations Sustainable Development Agenda 2030”, 08 Sustainable Development Objectives had been identified by the Pradeshiya Sabha in the year 2020 and its progress was at a range of 12 percent to 100 percent.

Comment of the Secretary

The proceedings will be done correctly in future.

Recommendation

The relevant objective and the targets should be achieved as per the Sustainable Development Agenda.