Karandeniya Pradeshiya Sabha - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karandeniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Statement of financial position as at 31 December 2024, Statement of Financial Performance, statement of changes in net equity, 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions with subsection 10(1) of the 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 Karandeniya 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 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.

1.2 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.

1.3 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 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 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.

1.4 Report on Other Legal Requirements

National Audit Act No. 19 of 2018 contains special provisions regarding the 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 except the audit matters of 1.6.1 (e) described in paragraph 1.6 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	Comment of the Sabha	Recommendation
(a)	The value of 03 asset items valued at Rs.315,000 had been stated as recurrent expenses.	Correction will be made when preparing the financial statements for the year 2025.	Expenses should be accurately identified and accounted.
(b)	Equipment, plant and machinery valued at Rs.919,900 had not been capitalized and had been included under land and buildings.	Correction will be made when preparing the financial statements for the year 2025.	Fixed asset classifications must be correctly identified and accounted.
(c)	The value of the electrical equipment costing Rs.361,075 for the solar panel owned by the Sabha had not been accounted.	Correction will be made when preparing the financial statements for the year 2025.	The value of the relevant electrical equipment should be accounted under machinery and equipment.
(d)	The values of 23 lands and 20 buildings owned by the Sabha had not been assessed and accounted.	The valuation reports will be accounted for after they are received.	These lands and buildings owned by the Sabha should be assessed and accounted promptly.
(e)	Provisions had not been made under creditors for the balance of Rs.12.76 million payable towards Local Government Service Pension Contributions at the end of the year under review.	Correction will be made when preparing the financial statements for the year 2025.	Provisions should be made for things that need to be paid.

(f)	Due to the fact that the fixed deposit interest receivable in respect of the previous year was stated as income for the year under review without adjusting the accumulated fund by Rs.1.11 million, the surplus for the year under review was stated higher and the accumulated fund was stated lower by that amount, and the fixed deposit interest income for the year under review was stated lower by Rs.185,756.	Correction will be made when preparing the financial statements for the year 2025.	Accounting must be done accurately.
(g)	In the year 2019, the settlement of tender guarantee deposits and security deposits of Rs.495,500 and Rs.220,600 respectively was recorded only in the cash account, and during the year under review, the guarantee accounts were incorrectly debited and the surplus and deficit accounts were credited, resulting in an increase in the profit of the year under review by that amount.	Correction will be made when preparing the financial statements for the year 2025.	Accounting must be done accurately.
(h)	In the year 2022, the 10 percent withholding tax for industries was settled in the amount of Rs.192,466, recorded only in the cash account, and during the correction in the year under review, the surplus and deficit account was incorrectly debited and the 10 percent withholding tax account was credited, resulting in a decrease in the profit for the year under review by that amount.	Correction will be made when preparing the financial statements for the year 2025.	Accounting must be done accurately.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs.302,925 between the balances	Action will be taken to correct it in the	The reasons for the difference should be

of 02 accounting items shown in the financial statements and the balances shown in the relevant schedules.	future.	identified and corrections made.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to non-submission of Detailed schedules for the confirmation of 04 accounting items aggregating to Rs. 13,116,007 could not be examine satisfactorily.	These are long-standing balances and that they will be written off after approval is received. The files related to these balances have been destroyed due to the flood situation.	Corroborating written evidence must be submitted to the audit.

1.7 Non-compliances

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

Non-compliance with laws, rules, regulations and management decisions are shown below.

	Reference to Laws, Rules, Regulation	Non compliance	Comment of the Sabha	Recommendation
(a)	**Section 134(1) of the Pradeshiya Sabha Act, No. 15 of 1987**	The Sabha had not focused its attention on identifying developed areas within the Sabha jurisdiction and collecting assessment taxes on the immovable properties located there.	According to the assessment, tax will be levied in 2025.	Developed areas in the jurisdiction should be identified and taxed.
(b)	**The Code of Finance Regulations of the Democratic Socialist Republic of Sri Lanka**			
(i)	**F.R. 571**	Action had not been taken in accordance	Income will be included in the	Actions should be taken in accordance

		with financial regulations regarding 16 balances value Rs.602,087 over 2 years.	preparation of financial statements	with the provisions of the financial regulations.
(ii)	**F.R. 177(1)**	Although the money collected in the field should be remitted on the same day or the next day, the amount of Rs.200,450 collected by the Revenue Inspector of the Sabha was remitted to the office after a delay of 47 days.	The money collected in the field will be submitted to the subject officer along with the schedule on the same day or the next day and the money will be paid.	Officers should be informed to take action to prevent such delays and disciplinary action should be taken against officers who do not act accordingly.
(c)	**Public Administration Circular No. 18/2001 dated 22 August 2001**	Although every officer who has served at one place of work for a maximum period of 05 years should be given annual transfers, 05 officers of the Pradeshiya Sabha had been employed at the same place of work for a period of between 06 and 08 years, which was not in accordance with this.	Transfer orders received will be acted upon.	Action should be taken to transfer the relevant officers as appropriate in accordance with the transfer policies and the provisions of the circular.

2. Financial Review

2.1 Financial results

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.13,497,532 as compared with the excess of revenue over recurrent expenditure amounting to Rs.2,020,062 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 of the Sabha, the information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year is shown below.

	2024				2023			
Source of Revenue	**Estimated Revenue**	**Revenue billed**	**Revenue Collected**	**Arrears as at 31 December**	**Estimated Revenue**	**Revenue billed**	**Revenue Collected**	**Arrears as at 31 December**
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	4,060,657	5,118,155	5,876,081	4,863,067	4,168,798	4,741,920	5,108,424	5,620,998
Rent	7,473,420	9,752,835	7,115,338	6,943,901	8,910,350	6,659,850	9,887,267	4,306,404
License Fees	531,200	1,519,635	1,540,635	128,350	450,100	422,597	398,597	149,350
Other revenue	5,725,000	12,873,134	12,129,506	791,820	11,883,000	8,463,326	8,460,326	48,192
	17,790,277	29,263,759	26,661,560	12,727,138	25,412,248	20,287,693	23,854,614	10,124,944

2.2.2 Performance in Revenue Collection

Observations related to performance in revenue collection of the Sabha are given below.

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and Taxes		
(i) The total outstanding rates and tax income as at 01 January of the year under review was Rs.5.62 million, and although the total revenue due during the year including the billings for the year was Rs.10.74 million, there was a deficit of Rs.4.86 million as the revenue collected was Rs.5.88 million.	Action will be taken to recover the income.	A program with a specific time frame for collecting arrears of revenue should be prepared and arrears of revenue should be collected accordingly.

(ii)	Tax had not been collected from 105 assessment units during the year under review.	Action will be taken to recover the revenue.	Action should be taken to recover assessments in accordance with the provisions of the Pradeshiya Sabha Act.
(iii)	Although the assessment of assessable properties is required to be carried out every 5 years in accordance with Section 20 of the Rating and Valuation Ordinance No. 30 of 1946, the Sabha had lost a large amount of revenue due to levying taxes based on an assessment value that was more than 16 years old, which was carried out in 2008.	Action will be taken to levy taxes from 2025.	Revenue should be collected by appraising the property at its current value in accordance with the Property Act.
	(b) Rent		
(i)	Although the rental income due at the beginning of the year under review was Rs.4.31 million, and the total income due for the year, including the billings of Rs.9.75 million, was Rs.14.1 million, the income collected was Rs.7.12 million, increasing the deficit to Rs.6.94 million by the end of the year under review.	Legal action will be taken to recover outstanding balances and for ongoing unpaid balances.	A program with a specific time frame for collecting arrears of revenue should be prepared and arrears of revenue should be collected accordingly.
(ii)	Although there was arrears of Rs.3.46 million in respect of 83 out of the 241 shops owned by the Pradeshiya Sabha, action had not been taken in accordance with Section 159(1) of the Pradeshiya Sabha Act No. 15 of 1987 to recover the arrears.	Action will be taken to recover outstanding balances promptly.	Action should be taken to recover the relevant arrears as soon as possible.

(iii)	Although the agreements should be entered into after full payment in accordance with paragraph 16 of the Southern Province, Local Government Commissioner's Circular No. දපපා/පපාකො/2010/01, such agreements had not been entered into 03 stalls belonging to the Sabha. Although each agreement relating to stalls should be updated once every 03 years, the agreements of 72 stalls had not been updated.	Arrangements have been made to update the agreements.	Agreements should be entered into as per circular instructions and each agreement should be updated every 3 years.
(iv)	Although the rent for stalls should be revised every 5 years through a new assessment, the Sabha had lost the rental income it was entitled to due to the fact that 94 stalls owned by the Sabha were being charged based on the assessment of the year 2015.	The valuation has been referred to the Valuation Department to carry out a valuation revision.	The current value of the shops should be assessed and action should be taken to recover the revenue as soon as possible.
(c)	**License Fee**		
	There was a license fee deficit of Rs.128,350 as at the end of the year under review.	Action will be taken to recover it in the future.	A specific time frame for collecting arrears of revenue should be prepared and arrears of revenue should be collected accordingly.
(d)	**Other Revenue**		
(i)	The other revenue deficit, which was Rs.48,192 at the beginning of the year under review, had increased to Rs.791,820 by the end of the year under review.	Action will be taken to recover the arrears of revenue.	A specific time frame for collecting arrears of revenue should be prepared and arrears of revenue should be collected accordingly.
(ii)	According to Gazette Notification No. 2358 dated 10 November 2023, the entertainment tax and stadium fees amounting to Rs.111,000 due from the Old Students' Association for the lease of the T.D. Samaraweera Stadium had not been collected.	The funds have been released on the orders of the Hon. Governor.	Action should be taken to collect entertainment taxes and stadium fees as per the relevant gazette notification.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comment of the Sabha	Recommendation
Although the District Approved Price Committee prices require the purchase of water pipes in accordance with the prices of the Baddegama (Weste) Regional Development Cooperative Society, in a manner inconsistent with that, and without regard to quality, 22 water pipes value Rs.448,000 had been purchased from another institution that had submitted the lowest price, and the Sabha had overpaid Rs.86,200 for 9 water pipes.	It will be done at the prices of the Regional Development Cooperative Society.	Purchases should be made at the prices approved by the District Price Committee and action should be taken to recover the excess amount from the responsible officials.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
During the year under review, there was a difference of 563 units belonging to 12 items costing Rs.219,959 between the quantity of electrical goods issued from the stores and the quantity installed by the Street Lighting Division.	This difference will be corrected by comparing the stock records.	A comparison should be made to identify the reasons for the difference and internal control regarding this should be formalized.

3.3 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Although the Sabha had approved 54 building development permits from 2022 to 2024, only 8 institutions had obtained certificates of compliance. Although a building development permit can be extended for only 02 years in terms of Section 10(6) of the Urban Development Authority Act No. 45 of 1978, there was	The approval of the Sabha planning committee has been obtained and that it is not an unauthorized construction.	Action should be taken in accordance with the Urban Development Authority Act regarding constructions that have not obtained

no information that the Sabha had conducted any monitoring of the 54 buildings after granting those permits.		certificates of conformity.

3.4 Human Resources Management

	Audit Observation	Comment of the Sabha	Recommendation
(a)	As at the end of the year under review, there were 19 vacancies in several posts including Ayurvedic Medical Officer, Librarian, Revenue Inspector, Ayurvedic Drug Compounder in the Sabha, and there were 4 officers who were redundant.	The Department of Local Government has been informed of staff vacancies.	A staff review should be conducted and appropriate action taken according to the role and scope of the Sabha.
(b)	The outstanding balance of employee loans at the end of the year under review was Rs.1.57 million, of which a total of Rs.396,981 was outstanding for a period of between 3 and 36 years.	Action will be taken to recover the money.	Action should be taken to collect outstanding balances promptly.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Sabha	Recommendation
40 work proposals with an estimated value of Rs.1961.6 million included in the action plan for the year under review had not been implemented during the year.	The remaining development projects will be implemented in the future.	The Sabha should prepare a scientifically sound action plan and implement it, taking into account the resources and funding available.