

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Katana Pradeshiya Sabha for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, Statement of Comprehensive Income, Statement of Changes in Net Assets/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 Sub-Section 10(1) of the 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, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Katana Pradeshiya Sabha as at 31 December 2024 and its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Adverse Opinion

I expressed adverse opinion regarding financial statements 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 adverse 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 Sri Lanka Public Sector Accounting Standards for Local Authorities, 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 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.

1.5 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with the reference to particular Standard	Comments of the Sabha	Recommendation
(a) In preparing the cash flow statement, in accordance with paragraph 3.28 of Chapter 3 of the Standard and EG 6.2 of the Explanations and Guidance in Appendix 2 thereof, the surplus for the year was overstated by Rs. 55,176,700 and the depreciation expense of Rs. 33,641,841 was overstated by Rs. 28,421,246 in the comprehensive income statement for the year under review. The fixed deposit interest income of Rs. 24,217,274 and the loan interest expense of Rs. 1,675,514 which were adjusted to the surplus for the year under review, had not been adjusted. Furthermore, the decrease in receivables was stated as Rs. 20,697,901 while it should have been Rs. 21,419,127 and the decrease in other current liabilities was stated as Rs. 30,754,838 while it should have been Rs. 31,589,738.	Accepted.	The cash flow statement should be prepared in accordance with the standard.
(b) In accordance with paragraph 3.29 of Chapter 3 of the Standard and EG 6.3 of the Explanations and Guidelines in Appendix 2 thereof, in calculating cash flow from investing activities, interest on fixed deposits received from cash for investment of Rs. 24,217,274 was not shown, and during the year under review, there was a cash inflow of Rs. 83,100,000 from the release of fixed deposits and a cash outflow of Rs. 242,467,247 from the investment of cash	Accepted.	The cash flow statement should be prepared in accordance with the standard.

for fixed deposits, but only a cash outflow of Rs. 159,380,920 was shown as investment.

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| (c) | Although, as per paragraph 3.2 of Chapter 3 of the Standard, such short-term investments with a maturity of 03 months or less from the date of acquisition should be presented as cash and cash equivalents in the cash flow, the value of seven-day deposits worth Rs. 600,100,000 as at the end of the year under review had not been presented as cash and cash equivalents. | Accepted. | The cash flow statement should be prepared in accordance with the standard. |
| (d) | In calculating cash flow from financing activities in accordance with paragraph 3.30 of Chapter 3 of the Standard and EG 6.4 of the Explanations and Guidance in Appendix 2 thereof, interest repayments of Rs. 1,265,005 on long-term loan had not been disclosed. | Accepted. | The cash flow statement should be prepared in accordance with the standard. |
| (e) | In accordance with EG 3.6 of the Explanations and Guidance in Chapter 6 of the Standard and its Appendix 2, the cost value of 10 asset items during the year under review was adjusted to the accumulated fund without calculating the profit/loss on disposal of the items amounting to Rs. 3,218,136. | Accepted. | The cash flow statement should be prepared in accordance with the standard. |

1.6.2 Accounting Deficiencies

Audit Observation		Comments of the Sabha	Recommendation
(a)	As the value of goods worth Rs. 13,632,835 which had not been received by the Sabha as at 31 st December of the year under review had been accounted for as a creditor, Rs. 4,391,055 as an expense of the year under review and Rs. 9,241,780 as non-current assets, the creditor balance and non-current assets balance as at the end of the year under review had been overstated and the surplus of the year under review had been understated.	Accepted.	Accounts should be prepared correctly.
(b)	Fixed deposit interest income of Rs. 17,446,375 relating to the year under review had not been recognized and accounted for as income for the year under review.	Accepted.	Accounts should be prepared correctly.
(c)	Interest income of Rs. 24,217,274 received in cash during the year under review, including fixed deposit interest income of Rs. 3,450,212 for the year 2023, had been shown as income for the year under review.	Accepted.	Accounts should be prepared correctly.

(d)	The interest on fixed deposits receivable of Rs. 20,707,433 as on 31st December of the year under review had not been shown as current assets.	Accepted.	Accounts should be prepared correctly.
(e)	Taxes received on land sales from the year 2022 to the year 2024, amounting to Rs. 1,000,642 had been retained as deposits even though they should have been included in income. Accordingly, the income for the year under review was understated by Rs. 4,500 and the accumulated fund by Rs. 996,142.	To take in income in the future.	Accounts should be prepared correctly.
(f)	Although the amount of Rs. 419,163 received by the Sabha for administrative expenses for projects carried out by the Sabha should have been shown as income of the Sabha, that amount had been retained in deposits.	To take in income in the future.	Accounts should be prepared correctly.
(g)	Since 2020, Rs. 170,000 received as court fines had been retaining in deposit without being recognized as income of the Sabha.	To take in income in the future.	Accounts should be prepared correctly.
(h)	The amount of Rs. 1,800,000 received for the reconstruction of the Mendiswatte Road in Kimbulapitiya Iddagodella was shown as a recurring grant in the comprehensive income statement, but was shown as a deposit. Therefore, the other comprehensive income of the year under review was shown less by that amount.	To take in income in the future.	Accounts should be prepared correctly.
(i)	Since the entertainment tax of Rs. 322,000 received during the year under review was retained as deposits, the income for the year under review was understated by Rs. 202,000 and the accumulated fund was understated by Rs. 120,000.	To take in income.	Accounts should be prepared correctly.
(j)	An expenditure of Rs. 546,000 relating to the plaque installed for the Pura Neguma Auditorium and the planting of plants to beautiful was capitalised as an expenditure in the year under review instead of being adjusted against comprehensive income.	Accepted.	Accounts should be prepared correctly.
(k)	Although the accounting of Rs. 97,596,694 spent on the construction of the Pura Neguma Auditorium as buildings instead of accounting under work in progress in the year 2023 had been corrected in the year under review, the depreciation value of Rs. 2,439,917 allocated in the year 2023 for that purpose had not been removed from the depreciation provision account.	Accepted.	Accounts should be prepared correctly.

(l)	During the year under review, Rs. 1,021,301 was identified as income for the year from capital grants, the capital grants account was debited and the depreciation provision accounts of the relevant asset categories were credited, therefore, the depreciation provision account for the year under review was overstated.	Accepted.	Accounts should be prepared correctly.
(m)	Although the depreciation value for the 5 asset classes for the year under review should have been Rs. 11,943,995 it was recorded as Rs. 12,568,667 so the surplus was understated by Rs. 624,672.	Accepted.	Accounts should be prepared correctly.
(n)	Although the depreciation allowances related to the assets being disposed of should have been removed from the relevant depreciation allowance accounts when assets are disposed of, due to non-removal, Rs. 829,676 had been overstated in the depreciation allowance accounts of 08 asset classes.	Accepted.	Accounts should be prepared correctly.
(o)	While accounting for the total cost of Rs. 96.78 million including the costs of building design and supervision and the consultancy firm, Rs. 15.38 million had been added to the buildings and had been adjusted to the Accumulated Fund instead of being adjusted as capital grants.	Accepted.	Accounts should be prepared correctly.

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a unreconcile of Rs. 68,131,387 between the totals in the schedules submitted with the financial statements for the year under review and the totals of the balances of 3 accounts in the financial statements.	Accepted.	The reasons for the difference should be found and corrected.

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions as follows.

Reference to Laws, Rules Regulations	Non-compliance	Comments of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571	Overdue deposits of Rs. 9,880,318, which were over two years, had not been settled.	That action will be taken to include Sabha revenue in the future.	Financial regulations must be followed.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 171,228,358 as compared with the excess of revenue over expenditure amounted to Rs. 122,351,582 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 estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

	Source of Revenue	Estimated Revenue	2024		Total Arrears as at 31 December	Estimated Revenue	2023		Total Arrears as at 31 December
			Revenue billed	Revenue collected			Revenue billed	Revenue collected	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
		000'	000'	000'	000'	000'	000'	000'	000'
(i)	Rates and Taxes	51,410	62,336	58,930	35,018	42,901	75,610	77,501	32,458
(ii)	Rent	10,507	887	878	8	3,531	794	764	209
(iii)	License fees	2,460	2,742	2,742	-	2,472	3,046	3,046	-
(iv)	Other Revenue	207,136	283,435	283,435	-	181,974	263,867	263,867	-
		<u>271,513</u>	<u>349,400</u>	<u>345,985</u>	<u>35,026</u>	<u>230,878</u>	<u>343,317</u>	<u>345,178</u>	<u>32,667</u>

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

	Audit Observation	Comments of the Sabha	Recommendation
(a)	In the year under review, 129 percent of the total estimated revenue was billed, while in the previous year, 148 percent of the total estimated revenue was billed. Accordingly, estimating the total revenue was not realistic.	Land sales tax revenue has increased.	Efforts should be made to prepare realistic estimates.
(b)	The rates arrears as at the end of the year under review were Rs. 31,769,071 which was 69 percent of the billing value for the year 2024. Out of that value, the arrears that had been outstanding for more than 02	That the properties with outstanding rates will be prohibiting until 2024	Efficient efforts should be made to recover arrears of rates.

years were Rs. 20,953,049. This was 66 percent of the total arrears of rates. Accordingly, the progress in recovery of rates by the Sabha was at a very low level. and steps will be taken to recover.

3. Operational Review

3.1 Performing of Functions Enacted by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comments of the Sabha	Recommendation
The environmental license that the sabha was required to obtain from the Central Environmental Authority for the waste disposal process had expired on 9 th of June 2024, and by 29 th of May 2025, no steps had been taken to obtain the environmental license.	Further steps are being taken to obtain the environmental license.	The environmental license must be obtained within the specified time.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) It was revealed that the final administrative authority of the software purchased to computerize office operations worth Rs. 5,995,000 was not given to the procurement entity, and the supplier itself had the ability to access the system from any location and change its data. Accordingly, the audit could not be satisfied with the confidentiality and security of financial transactions by giving the final administrative authority of a system used to conduct the financial transactions of the sabha to an external party.	The administration of the software is administered by the service provider itself to ensure security and not to be referred to various parties.	By delegating administrative power to an external party the Sabha's attention should be drawn to the confidentiality and security of financial transactions.
(b) Street light installation, repair and maintenance		
(i) Following up on complaints received was problematic due to the Sabha not providing a complaint number for the complaints	That complaint numbers will be provided and	A number should be provided for complaints and a

	received and a register had not been maintained to record requests received for the installation of new street lights.	follow-up will be carried out.	register should be maintained for new installations.
(ii)	A project initiated without preparing a work plan including information such as the time frame, cost incurred, number of officers to be assigned, etc., regarding the numbering of electricity poles had resulted in the irregular use of the Sabha's resources, a waste of resources and it had not been possible to achieve the expected results.	That the expected results could not be achieved.	It should be done systematically according to a plan.
(c)	The balance of Rs. 74,825 receivable in relation to 7 projects in the year 2021 had not been received or, if not received, had not been confirmed and removed from the books.	That the balance will be confirmed and removed from the registers.	Action should be taken to settle the receivable of balances.
(d)	From 2019 to 2022, action had not been taken to settle the industrial creditor balances totaling Rs. 58,471,695 or, if they could not be settled, to confirm and cut off.	That action will be taken to remove it from the documents in the future.	Creditor balances should be settled.
(e)	Although bin cards should be maintained in the warehouse for each item of goods, the Sabha had not maintained a bin card for any item of goods.	That will be corrected in the future.	Bin cards for inventory control for each item of good must be maintained in the warehouse.

3.3 Procurement Management

Audit Observation	Comments of the Sabha	Recommendation
The Technical Evaluation Committee had recommended accepting the bid of Rs. 5,995,000 submitted by the only institution that submitted a bid for the purchase of a software system for computerizing office work, but it had not been submitted to a Tender Committee and approved. Similarly, a procurement schedule had not been prepared as per 4.2.2 (a) of the Government Procurement Guidelines and action had not been taken as per 2.3.2 (c), 2.11.2, 2.12 (a), 2.11.3 (a), 4.3.1 (a), 7.9.1 and 9.7.2 of the Procurement Guidelines.	That is currently being carried out in accordance with the Procurement Guidelines.	National procurement guidelines should be followed.