

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katuwana Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the Statement of Financial Operations, statement of 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 of 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 read in conjunction with in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka. 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 financial statements give a true and fair view of the financial position of the Katuwana 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.

1.3 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, 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 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 include 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 Observation	Comments of the Sabha	Recommendation
(a) During the year under review, machinery, equipment, and furniture and fittings purchased by the sabha had been understated in the accounts by Rs.243,773.	It was stated that action is being taken to make the necessary corrections.	The understated value of machinery, equipment, and furniture and fittings should be properly accounted for.
(b) During the year under review, recurrent expenditure amounting to Rs.429,020 incurred for repairs and maintenance had been accounted for under capital expenditure.	It was stated that the expenditure has been identified and corrective action is being taken.	Capital and recurrent expenditures should be properly identified and recorded under the correct accounts.
(c) An amount of Rs.3.88 million incurred from 2017 to 2024 for the improvement of the Middeniya Rajapaksha Super Market Building had not been accounted for in the financial statements as work-in-progress.	It was stated that steps will be taken to disclose this amount in future financial statements and to record it once the improvement works are completed.	This amount should be accounted for in the financial statements as work-in-progress until the completion of the improvement works.
(d) The stamp duty revenue had been recorded with a shortfall of Rs.1.53 million, and the stamp duty revenue receivable had been overstated by Rs.3.98 million.	It was stated that corrective action will be taken in the future.	The stamp duty revenue should be recorded at the correct amount.
(e) Consumable materials valued at Rs.613,960 purchased for the water project had been accounted for as capital expenditure.	It was stated that action will be taken to correctly identify and record the expenses.	Capital and recurrent expenditures should be properly identified and accounted for accurately.

(f)	According to the library accession register, the balance of library books was Rs.5,520,678. However, as it had been shown as Rs.6,230,274 in the financial statements, non-current assets were overstated by Rs.709,596.	It was stated that corrective action will be taken in the future.	The difference between the expenditure shown in the financial statements and that in the accession register should be identified and corrected in the accounts for the year 2025.
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1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the sabha	Recommendation
A difference of Rs.456,517 was observed between the balances of two account subjects shown in the financial statements and the corresponding balances in the relevant utility utility scheduals /sub-schedules.	It was stated that the observation is accepted.	The differences in the relevant balances should be reconciled, and either the account or the sub-schedules should be corrected accordingly.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the sabha	Recommendation
Due to the non-submission of detailed sub-schedules and the fixed assets register relating to two account items totalling Rs.65.04 million, it was not possible to satisfactorily verify them.	It was stated that corrective action will be taken through proper record maintenance in the future.	The detailed sub-schedules supporting the journal reconciliations that confirm the account balances shown in the financial statements should be submitted for audit verification.

1.7 Non- Compliances

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

All observations related to non-compliances with Laws, Rules, Regulations and Management decisions etc. be shown under this heading.

Reference to Laws, Non-compliance Rules Regulations etc.		Comments of the Recommendation Sabha		
Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.				
(a)	Financial Regulations 571	Balances of 80 miscellaneous deposits, industrial retention deposits, security deposits, and tender deposits amounting to Rs.1.75 million, which had remained unregulated for over two years, had not been settled.	It was stated that letters have been sent to inform the relevant parties, and action will be taken to credit such amounts to revenue in the future.	In accordance with the provisions of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, deposits that have remained unclaimed for more than two years should be properly settled.
(b)	Paragraph 04 of the Southern Provinces, Department of Local Government Circular No දපපා/පපාකො/ 2010/ 01 dated 27 December 2010	Although, as per regulations, key money from shop room tenants should be collected on the due date or within a maximum period of six months in not more than six instalments, action had not been taken to recover the key money amounting to Rs.1.51 million receivable from six shop stalls for the years 2022 and 2024.	It was stated that action is being arranged to rectify the matter.	In accordance with the provisions of the circular, action should be taken either to recover the key money or to repossess the properties due to breach of agreement.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent revenue over expenditure of the Sabha for the year of under review amounted to Rs.31.66 million as corresponding with the excess of recurrent revenue over expenditure amounted to Rs.19.36 million 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 presented by the Secretary of 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	2024				2023			
	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	5,116,668	6,024,065	4,206,608	1,821,487	1,709,250	1,573,980	1,580,510	4,030
Rent	17,847,000	18,838,338	18,811,742	1,956,584	17,865,200	14,760,888	14,931,798	1,929,988
License fees	2,257,800	2,918,948	2,594,868	424,380	1,524,150	2,224,937	2,346,137	100,300
Other income	44,106,280	46,577,413	48,113,824	13,959,605	37,304,780	43,882,269	41,702,007	15,496,017
Total	69,327,748	74,358,764	73,727,042	18,162,056	58,403,380	62,442,074	60,560,452	17,530,335

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) According to Section 159(1) of the Pradeshiya Sabha Act, action had not been taken to recover Rs.815,273, which should have been received as shop rent from 41 shops belonging to the Sabha.	A sum of Rs.273,144 has been recovered, and steps are being taken to recover the remaining outstanding amount.	The outstanding revenue should be recovered promptly in accordance with Section 159(1) of the Act.

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| (b) | A sum of Rs.925,301 due from renting out Sabha vehicles, Rs.90,750 receivable from tendered properties, and Rs.55,559 due as rent from the mobile fish stall had not been recovered. | It was reported that Rs.128,897 of the vehicle rent has been recovered and that steps are being taken to recover the remaining outstanding amount, while legal action has been initiated to recover rent from the tendered properties. | Formal measures should be taken promptly to recover the outstanding amounts. |
| (c) | According to the agreement entered with the Katuwana Pradeshiya Sabha on 23 October 2017, for operating shops numbered 21 to 25 and a hotel with a restaurant on the second floor of the Middeniya Rajapaksha Super Commercial Complex owned by the Sabha, the lessee had agreed to pay a lump sum of Rs.8.45 million based on the 2014 shop rent valuation, and to spend Rs.16.64 million on property improvements. It had also been agreed that the amount spent on improvements would be offset against the rent over a period of 30 years, with a monthly instalment of Rs.462,211.
However, as of 31 December 2024, the rent payment had not been made, nor had the property been developed or business operations commenced. | It has been informed that steps will be taken to open the premises for business activities, and if that is not done, action will be taken to reclaim the said property for the Pradeshiya Sabha. | In accordance with the circulars and the terms of the agreement, necessary action should be taken either to recover the rent payment or ensure the improvement of the property and commencement of business operations, or to repossess the said property on behalf of the Sabha. |
| (d) | An income of Rs.461,080 was due from the displayed advertising boards. | It was reported that Rs.314,500 has been recovered, Rs.88,800 is to be submitted for deduction, and necessary action is being taken to recover the outstanding balance. | The outstanding revenue should be recovered without delay. |
| (e) | A sum of Rs.13.23 million in water charges remained unrecovered, and among this balance, there were 199 consumers with arrears exceeding Rs.10,000 each and 2 consumers with arrears exceeding Rs.100,000, indicating that revenue collection was not at a satisfactory level. | It was reported that Rs.622,552 has been recovered, that full payments have now been collected from 59 consumers whose arrears exceeded Rs.10,000, and that steps are being taken to recover the remaining outstanding amounts. | Formal measures should be taken to recover the outstanding balances. |

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| (f) | As at 31 December of the year under review, fines imposed by courts and stamp duty receivable from the Chief Secretary of the Provincial Sabha and other relevant authorities amounted to Rs.2.86 million and Rs.34.32 million respectively. | It was reported that Rs.1.3 million from court fines and Rs.19.29 million from stamp duty had been received. | A formal procedure should be established in coordination with the Chief Secretary, the Governor, and the Land Registrar's Office to ensure the proper collection and management of these revenues. |
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3. Operational Review

3.1 Management Inefficiencies

Audit Observation

Within the Sabha's jurisdiction, nine unauthorized constructions had been carried out without an approved development plan. However, action had not been taken either in accordance with Sections 49 and 52 of the Pradeshiya Sabha Act No. 15 of 1987, or to regularize those constructions by recovering charges amounting to Rs.578,364 as stipulated under Sub-paragraph 02 of Part I of the Extraordinary Gazette Notification No. 2235/54 dated 08 July 2021.

Comments of the Sabha

It was reported that steps will be taken in the future to properly approve those development plans and to recover the relevant fees.

Recommendation

Action should be taken in compliance with the referenced Gazette Notification, ensuring that the necessary charges are recovered and the constructions are duly regularized.

3.2 Asset Management

Audit Observation

- (a) Although the Sabha had been utilizing 16 plots of land totalling 18 acres and 0.084 perches in extent, valued at Rs.12.56 million, along with 5 vehicles, legal ownership of these assets had not been formally transferred to the Sabha.
- (b) Three plots of land owned by the Pradeshiya Sabha, totaling 3 acres and 33.19 perches in extent, together with the upper floor of the bus stand building at Kirama which includes a series of shops and is valued at Rs.36.34 million had remained underutilized for a period of five years due to the failure to lease them out.

Comments of the Sabha

- (a) It was reported that letters have been sent to initiate the transfer process.
- (b) It was reported that steps will be taken in the future to address this matter.

Recommendation

- (a) The Sabha should take prompt action to obtain legal ownership of the assets currently under its use.
- (b) The assets should be utilized for productive purposes in order to generate income for the Sabha.

(c) The building complex in Kirama town, consisting of approximately 2,140 square feet and valued at Rs.4.25 million, which had been handed over to the Katuwana Pradeshiya Sabha by the Hambantota District Engineer's Office (Buildings), had been deteriorating due to the failure to complete the construction of its upper floor.	It was reported that the necessary funds were not available to carry out the required work.	A formal procedure should be established to ensure the protection and preservation of the asset.
(d) Action had not been taken to repair and use one of the Sabha's vehicles, nor to dispose of four vehicles that had been withdrawn from use.	It was reported that steps are being taken to repair the usable vehicle and that the disposal of the four vehicles will be carried out in the future.	A formal procedure should be established to repair and utilize the vehicle that can be used, and the four vehicles withdrawn from use should be properly disposed of.

3.3 Delays in Project Activities or Capital work

Audit Observation	Comments of the Sabha	Recommendation
Four development projects estimated at a total value of Rs.28.55 million under the 2024 Annual Action Plan had not been implemented during the year.	It was reported that one project has now been completed, another has been contracted and work has commenced, while estimates for the remaining two projects are currently being prepared.	The development projects for which budgetary provisions have been allocated should be duly implemented.

3.4 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
(a) By the end of the year under review, 23 excess cadre positions relating to two posts in the Sabha had not been regularized during the year.	It was reported that letters have been sent to the Department of Local Government to take the necessary action.	A prompt review should be carried out regarding the Sabha's staffing requirements.

(b) Without obtaining approval to include the post of Water Assistant in the approved cadre, two officers had been employed for a period exceeding 22 years from January 2002 to December 31, 2024 and a total of Rs.13.98 million had been paid to them as salaries.	It was reported that the post has been submitted for approval.	The staff requirements should be reviewed, and necessary action should be taken to regularize the relevant posts.
(c) Due to the failure to implement the transfer policy properly in accordance with Public Administration Circular No. 18/2001 dated 22 August 2001, ten officers of the Sabha had been serving at the same workplace for periods ranging from 5 to 10 years.	It was reported that all officers who have served for more than 5 years have now applied for transfers.	The transfer policy should be implemented in accordance with the referenced Public Administration Circular.

4. Accountability and Good Governance

4.1 Environmental Observations

Audit Observation	Comments of the Sabha	Recommendation
According to Condition No. 03 of the Environmental Protection License, at the Solid Waste Management Centre located on the land named Hellala Galagawahena in Middeniya, plastic, polythene, paper, glass, and metal waste should be properly separated and directed to relevant institutions for recycling. Until such materials are sent for recycling, they should be appropriately stored in a suitable location to prevent them from being blown away by the wind or exposed to rainwater. However, the Sabha had not acted in accordance with these requirements.	It was reported that waste is currently being segregated, properly stored, and necessary steps are being taken for recycling.	In accordance with Condition No. 03 of the Environmental Protection License, solid waste should be separated, properly stored, and directed to the relevant institutions for recycling.