Chavakachcheri Pradeshiya Sabha - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chavakachcheri Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 financial statements give a true and fair view of the financial position of the Chavakachcheri 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 Principles.

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, 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 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 Council	Recommendation
(a)	An estimated cost of Rs.77,119,589 related to 57 incomplete construction works and 3 payments had been accounted as creditors.	These outstanding amounts will be settled through payments.	Accounts should be prepared accurately.
(b)	Machinery and fixtures purchased for Rs.461,210 during the year under review had been stated as Rs.229,140 in the financial statements.	Action will be taken to disclose this in the financial statements for the year 2025.	Financial statements must be prepared accurately.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.504,572 between the inventory balance as per the store ledger, and the balance as per the financial statements as at 31December 2024.	The reasons for the difference are inquired and adjustments are being made through journal entries.	The balances in the financial statements should be reconciled with the relevant source documents.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Outstanding rates as at December 31 of the year under review valued at Rs.4,162,372 could not be satisfactorily verified due to non-submission of relevant documents, balance lists, and age analysis.	Attention will be paid to this matter in the future.	Documents, balance sheets and time analyses should be prepared.

1.7 Non- Compliances

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Section 134 of the Pradeshiya Sabha Act No. 15 of 1987	K form had not been issued for 5,817 properties that are to be recovered assessment tax by the Sabha in the year under review.	Action will be taken to issued K form entirely in the future.	Action should be taken according to the provisions of the Act.
(b)	571(1), (2) and (3) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	The security deposit of Rs.72,813, which had been outstanding for over two years, had not been settled.	The relevant security deposit amount will be refunded in due course.	Financial regulations should be followed.
(c)	Section 11 of Part I of the Gazette Extraordinary No. 2235/54 dated 08 July 2021 of the Urban Development Authority of the Democratic Socialist Republic of Sri Lanka	Steps had not been taken to recover extension fees amounting to Rs.3,235,000 for buildings that had not obtained certificates of conformity.	Corrective action is being taken.	Action should be taken to recover fees for extension of time in accordance with the provisions of the Act. .

2. Financial Review

2.1 Financial Result

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.226,766,456 as compared with the excess of revenue over recurrent expenditure amounted to Rs.121,510,834 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

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.

	2024				2023			
Source of Revenue	**Estimated Revenue**	**Revenue Billed**	**Revenue Collected**	**Arrears as at 31 December**	**Estimated Income**	**Revenue Billed**	**Revenue Collected**	**Arrears as at 31 December**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Rates and Taxes	163,000	4,750,653	588,282	4,162,371	162,000	3,160,175	124,522	3,035,653
Rent	23,182,260	28,645,307	28,645,307	-	21,755,150	25,377,692	25,339,642	38,050
Licence Fees	3,176,500	3,488,944	3,488,944	-	2,634,000	2,744,245	2,744,245	-
Other Revenue	23,267,350	160,362,728	160,362,728	-	68,117,200	123,703,079	123,703,079	-
Total	49,789,110	197,247,632	193,085,261	4,162,371	92,668,350	154,985,191	151,911,488	3,073,703

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
The outstanding assessment tax balance as at the end of the year under review was Rs.4,162,371. Out of this, Rs.2,557,872 from 6,933 assessment tax properties was a balance between 1 and 10 years and Rs.1,604,499 was a balance over 10 years.	Action has been taken to reassess and correct the property.	Appropriate action should be taken to promptly recover the outstanding balances.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The balance of Rs.33,000,000 in fixed deposits during the year under review had been invested in fixed deposit with the intention of earning interest income, instead of being utilized for development activities related to public utility services as specified under Section 108, Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987.	Steps will be taken to utilize the funds in the implementation of programs.	Steps should be taken to develop public utility services in accordance with the provisions of the Act.
(b)	51 development projects implemented using the Council's development funds over a period of 1 to 8 years, at a total cost of Rs.255.8 million, had been discontinued before completion.	Remedial actions are being taken promptly.	Steps should be taken to complete those development activities within the specified timeframes.
(c)	Approximately Rs.1,122,700 in revenue had been lost due to the failure to lease out three stalls owned by the Sabha.	Bids had been invited on several occasions for renting out shops, but no one came forward.	Actions should be taken to fully utilize the income sources of the Sabha.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Although a Certificate of Conformity (COC) should be issued to confirm whether buildings have been constructed in accordance with Section 15(1) of the Housing Construction and Urban Development Ordinance No. 15 of 1915, Certificates of Conformity had not been issued for 683 development permits granted for building construction by the end of the year under review.	Notification has been issued to obtain Certificates of Conformity.	Steps should be taken to issue a Certificate of Conformity.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
One hundred and eighty seven wells, 45 cemeteries and 21 lands and buildings had not been handed over to the Sabha up to now. Also, 11 buildings, 04 markets and common well in the cemetery valued at Rs.61,200,189 had been constructed on lands not owned by the Sabha contrary to the paragraph 1.1 of Finance Commission Circular No. 2016/01 of 30 December 2015 during the year under review.	Actions are being taken to take over.	Ownership of assets should be settled.

3.4 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
Steps had not been taken for over a year to recover Rs. 238,158 due from 02 officers who had been transferred after serving in the Sabha.	Steps will be taken to recover said amount from them.	Steps should be taken to recover the loan.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
Due to the fact that there were variations from 10 percent to 1,311 percent in 05 revenue items, from 30 percent to 100 percent in 07 expenditure items and 31 percent in one capital expenditure items when comparing the estimated revenue and expenditure with the actual revenue and expenditure according to the budget prepared for the year under review, the budget had not been used as an effective management control tool.	The fluctuations were due to unexpected income and high expenses.	Needs should be identified and the budget should be prepared carefully.

4.2 Environmental Observations

Audit Observation	Comments of the Council	Recommendation
(a) The Sabha had granted approval to 139 industrial institutes that were engaged in commercial activities without obtaining trade licenses in accordance with the	They will be issued an environmental permit after receiving a satisfactory report.	Steps should be taken to renew trade licenses in accordance with the National Environment

	National Environment Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and No. 53 of 2000, and the regulations in force thereunder.		and the regulations in force thereunder.
(b)	Non-biodegradable waste that could not be produced could not be disposed of in an open area, and recyclable materials should have been separated and sent for recycling as much as possible, but instead, they were burned, causing environmental damage.	Actions have been taken to destroy waste without harming the environment.	Waste should be disposed of in an environmentally friendly manner.