

Karainagar Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karainagar 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 Karainagar 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 Sabha	Recommendation
(a)	The estimated cost of 05 unfinished construction works amounting to Rs.16,926,538, had been accounted for as creditors.	Various creditors had been set aside in the account without being settled by the end of the year.	Accounting must be done correctly.
(b)	06 solar street lamps, nameplates and 30 plastic solid waste collection equipment purchased for Rs.1,315,000 in the year under review and the previous year had not been accounted for as assets.	Adjustments will be made in the financial statements of the year 2025	-Do-

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 Sabha	Recommendation
(a)	Section 134 of the Pradeshiya Sabha Act No. 15 of 1987	K form had not been issued for 8,432 properties that are to be recovered assessment tax by the Sabha in the year under review.	It could not be completed due to staff shortage.	Action should be taken according to the provisions of the Act.

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| (b) | 104 – 110 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka | The council had not taken appropriate action regarding the solar street lamps worth Rs.269,000 stolen in 2023. | Further action will be taken after receiving the police report. | 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.580,000 for buildings that had not obtained certificates of conformity. | | 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.32,856,062 as compared with the excess of revenue over recurrent expenditure amounted to Rs.25,713,968 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.

Source of Income	2024			2023				
	Revenue Estimated	Billed Revenue	Source of Income	Revenue Estimated	Billed Revenue	Source of Income	Revenue Estimated	Billed Revenue
	Rs.	Rs.		Rs.	Rs.		Rs.	Rs.
Rates and Taxes	19,286,627	23,472,188	19,042,356	4,429,831	9,426,100	18,718,764	16,863,351	1,855,413
Rent	6,910,800	6,888,748	6,855,397	33,351	2,027,000	3,964,364	3,964,364	-
License Fees	449,200	623,386	623,386	-	415,600	503,776	503,776	-
Other Revenue	12,766,346	15,957,254	15,897,282	59,972	5,347,700	22,344,981	16,653,681	5,691,300
Total	39,412,973	46,941,576	42,418,421	4,523,154	17,216,400	45,531,885	37,985,172	7,546,713

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
Assessment tax arrears of Rs.1,124,096 for 2 years and drinking water charges arrears of Rs.1,968,196 for more than 3 years had not been collected so far.	Actions are being made to recover the arrears.	Action should be taken to recover outstanding amounts promptly.

3. Operational Review

3.1 Performing the functions assigned 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 Observations	Comments of the Sabha	Recommendation
Although a Certificate of Conformity (COC) should be issued after confirming that buildings have been constructed according to Section 15(1) of the Housing and Town Improvement Ordinance No. 15 of 1915, Certificates of Conformity had not been issued for 178 development permits granted for building construction by the end of the year reviewed.	Notifications have been given to the relevant parties to obtain Certificates of Conformity and steps are being taken to rectify this situation.	Steps should be taken to provide a certificate of conformity.

3.2 Management Inefficiencies

	Audit Observations	Comments of the Sabha	Recommendation
(a)	Seven projects worth Rs. 23,538,389, which had been implemented using the council's development reserve funds from years 2 to 11, had been abandoned in the middle.	Steps have been taken to complete the tasks in a timely manner.	Appropriate steps should be taken to complete tasks within the stipulated time frame.
(b)	The balance of Rs.53,943,694 in fixed deposits during the year under review had been deposited with the bank for the	Steps will be taken to utilize funds when implementing development projects.	In accordance with the provisions of the Act, steps should be taken to

purpose of earning interest income, without being utilized in development activities related to public utility services as specified under Section 108, Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987.

develop public utility services.

3.3 Assets Management

	Audit Observations	Comments of the Sabha	Recommendation
(a)	Steps had not been taken to repair and reuse 03 vehicles that had been in an unusable condition for 05 years or to sell them at auction.	Actions are underway to repair/dispose of the building.	Repair or disposal work should be expedited.
(b)	The Council had not taken steps to acquire 02 lands in use and 05 lands totaling Rs. 48,467,487 included in the fixed assets of the financial statements.	Actions have been taken to take over and assess and account for the values.	The process of taking over the assets of the council should be expedited.
(c)	The Sakkalavodai Fish Market, which was established at a cost of Rs 3,773,679 with the intention of renting it out on a long-term basis, was still unused.	Steps are being taken to maintain it under the supervision of a council officer.	Steps should be taken to utilize the assets of the council for revenue generation.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
Due to the fact that there were variations from 20 percent to 45 percent in 04 revenue items, from 09 percent to 36 percent in 06 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.	The budget should be carefully prepared by identifying needs and using it as an effective management control tool.