

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kayts 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 Kayts 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) In the year under review and the previous year, 06 projects completed at a cost of Rs.26,625,303 had not been accounted for as assets.	Steps will be taken to disclose this in the financial statements in 2025.	Accounting should be done correctly.
(b) The estimated cost of 06 construction works that had not been completed totaling Rs.7,120,605 had been accounted for as creditors.	-Do-	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.102,952,923 between the balances as per the financial statements and the corresponding balances in the schedules in respect of 05 subjects.	Steps will be taken to correct the financial statements in 2025.	The reasons for the differences should be identified and corrected, or inconsistencies should be checked and corrected.

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
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.225,000 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.14,664,809 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 9,594,341 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	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Revenue Collected	Arrears as at 31 December
	Rs.	Rs. Rs.	Rs.Rs.	Rs. Rs	Rs.Rs.	Rs.Rs.	Rs.Rs.	Rs.Rs.
Rates and Taxes	896,531	1,198,055	561,741	636,314	-	447,112	218,439	228,673
Rent	3,673,910	3,472,898	3,430,473	42,425	2,075,700	3,286,576	3,073,976	212,600
License Fees	368,300	355,545	355,545	-	362,300	370,152	370,152	-
Other Revenue	13,609,733	7,153,916	7,149,916	4,000	5,127,300	8,573,056	8,573,056	-
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Total	<u>18,548,474</u>	<u>12,180,414</u>	<u>11,497,675</u>	<u>682,739</u>	<u>7,565,300</u>	<u>12,676,896</u>	<u>12,235,623</u>	<u>441,273</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
The balance of the arrears of trade tax account amounted to Rs.636,314 of which Rs.228,673 had remained outstanding for over one year. In addition, court fines amounting to Rs.630,000 due as at 31 December 2024, and stamp duty arrears of Rs.22,950 relating to previous years, had not been recovered for periods ranging from 2 to 9 years.	Steps have been taken to recover the outstanding money.	Appropriate actions should be taken to promptly recover outstanding revenues.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Due to the failure of the Sabha to call for tenders and award contracts for the market and the beef stall, which are tendered annually, the Sabha had lost an income amounting to Rs.103,350.	The Sabha called for bids but no one came forward.	Actions should be made to maintain the council's sources of income at an optimal level.
(b) The balance of Rs.21,923,632 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 development projects.	Steps should be taken to develop public utility services in accordance with the provisions of the Act.

3.2 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Steps had not been taken for over 2 years to make the Kites Stadium, which was renovated at a cost of Rs.17,075,000 under the Regional Development Assistance Project in the year 2022, available for public use.	Steps will be taken for maintenance in the future.	Actions should be made to fully utilize assets.
(b) The ownership of 26 lands, 9 cemeteries and 4 tractors used by the Sabha had not been transferred to the Sabha.	Steps are being taken to acquire the rights.	The process of acquiring ownership of assets should be expedited.
(c) Actions had not been taken to repair and reuse 02 tractors that had been in an unusable condition since 2005 or to sell them at auction.	Work is underway to repair/dispose of the building.	Repair or disposal work should be expedited.

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 09 percent to 86 percent in 04 revenue items, from 22 percent to 94 percent in 05 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.	Attention. Was paid	The budget should be carefully prepared by identifying needs and using it as an effective management control tool.