

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karachchi 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 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 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 Karachchi 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, 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 Scope of Audit (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 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	An estimated cost of Rs. 50,610,461 relating to 30 unfinished constructions had been accounted for as creditors.	Only 6 of those tasks are currently being implemented, while all the remaining tasks have been completed.	Accounts should be prepared correctly.
(b)	Six items totaling Rs. 4,025,248, which were not physically visible, were stated in the financial statements as non-current assets.	Steps will be taken to remove it from fixed assets in the future.	Financial Statements should be prepared correctly.
(c)	The motor grader and 02 vehicles, amounting to Rs. 32,835,420, which had been received as donations but had not been transferred to the council, had been shown as non-current assets in the financial statements.	Action is being taken to takeover.	-Do-
(d)	The value of the Sabha's office building and 10 vehicles in use had not been assessed and accounted for by the end of the year under review.	Action is being taken to assess.	Accounts should be prepared correctly.

1.7 Non-compliance

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

	Reference to Laws, Rules, Regulations	Non-compliance	Comments of the Council	Recommendation
(a)	Section 04 of Chapter XXIV of the Establishment Code of the Democratic	Steps had not been taken to recover the employee loan balance of Rs. 23,105 that was due from an	That the correct action will be taken.	Actions should be taken in accordance with the provisions of

	Socialist Republic of Sri Lanka	officer for the past 12 years.		the Establishments Code.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 571(1), (2) and (3)	The Sabha had not taken action to settle or transfer to revenue of 23 overdue deposits totaling Rs. 1,542,953, which were more than 02 years old.	They have been notified to collect the relevant money, and some of it is being paid and settled.	Financial regulations should be followed.
(c)	Item 11 of Part I of the Extraordinary Gazette No. 2235/54 of the Democratic Socialist Republic of Sri Lanka dated 08 July 2021 of Urban Development Authority.	Steps had not been taken to collect late fees of Rs.1,694,370 for extension of period for 08 buildings that had not obtained occupancy certificates.	Not answered.	Late charges should be levied in accordance with the provisions of the Act.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.260,176,108 compared to the excess of income over recurrent expenditure amounted to Rs.160,146,101 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, 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	31,085,553	105,507,242	44,477,067	61,030,175	31,318,748	87,151,895	12,475,045	74,676,850
Rent	175,453,400	133,305,504	125,517,356	7,788,148	161,309,534	78,438,208	66,604,905	11,833,303
License Fee	9,934,150	11,296,599	11,296,599	-	9,637,100	10,626,024	10,626,024	-
Other Revenue	23,397,050	64,069,764	63,707,514	362,250	89,670,566	122,292,771	121,264,921	1,027,850
Total	239,870,153	314,179,109	244,998,536	69,180,573	291,935,948	298,508,898	210,970,895	87,538,003

2.2.2 Performance in Collecting Revenue

Audit Observation

The balance of arrears of Rates and Taxes due on lands, constructed houses and buildings, etc., for a period of 01 to 06 years was Rs.70,619,462, while there was also a balance of Rs. 8,200,400 in old arrears of taxes, rent and various fees for a period of 01 to 10 years.

Comments of the Council

That steps are being taken to collect arrears of revenue.

Recommendation

Effective steps should be taken to promptly recover arrears of revenue.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

- (a) The total debt balance payable to the Local Loan Development Fund, amounting to Rs. 2,274,784, had not been settled for more than 7 years.
- (b) No steps had been taken for over a year to rent or lease 16 shops and 10 lands owned by the council.
- (c) 48 tenants had constructed permanent buildings without the approval of the council, contrary to condition number 03 of the lease agreements.
- (d) The Kandawalai Ayurveda Building was abandoned after only a part of its construction was completed at a cost of Rs. 2,204,467 in the year 2020, therefore the building being damaged.

Comments of the Council

- Action will be taken to settle.
- Not answered.
- Action will be taken in the future.
- Action will be taken regarding this after obtain the report.

Recommendation

- Action should be taken to settle.
- Action should be taken to rent or lease.
- Appropriate action should be taken against the tenants.
- Steps should be taken to fully construct and use the buildings.

3.2 Operating inefficiencies

Audit Observation

- (a) The organic fertilizer processing project constructed in Umayalpura at a cost of Rs.4,090,488 under the Ministry of Provincial Councils and Local Government in the year 2017 has been lying idle for the past 7 years.

Comments of the Council

The steps have been taken to prepare and operate the premises at another location.

Recommendation

Steps should be taken to utilize assets optimally.

(b)	Four capital projects worth Rs.11,985,930 constructed in previous years have remained idle for over 07 years.	Steps will be taken to utilize it.	-Do-
(c)	The Kilinochchi Public Library, which was constructed at a contract value of Rs.39,872,130 in the year under review, has not been used even after a year has passed.	Additional work remains to be done.	-Do-
(d)	Steps had not been taken to take over 09 vehicles and 104 lands covering an area of 354 acres that had been used by the Sabha for over 05 years.	That steps are being taken to transfer ownership.	The ownership of the assets must be cleared.
(e)	The Wannerikulam Tourist Center, which was constructed under the Provincial Specific Development Grant in 2016, had not been prepared for tourists by the end of the year under review and the Rs.4,790,078 spent on this had become an uneconomical expense.	Further action will be taken regarding this.	Steps should be taken to utilize assets optimally.
(f)	20 vehicles and their parts had been idle for a period of 1 to 10 years and appropriate measures had not been taken to repair and reuse them or to dispose of them.	Work is underway to carry out repairs in parts.	Assets should not be left unused.