

Kanthale Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kanthale Pradeshiya Sabha for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 and Income and Expenditure Account, 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 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 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 Kanthale Pradeshiya Sabha as at 31 December 2024, and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.2 Basis for qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 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 Principles and for such internal control as management determines 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 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 to be prepared of the Sabha.

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 exercise professional judgement and maintain professional scepticism throughout the audit. I also

- Appropriate audit procedure were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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
- An understanding of internal control relevant to the audit was obtained 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 the Pradeshiya Sabha's internal control
- Evaluate the 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
- 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 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 discussions issued by the governing body of the company
- Whether the Pradeshiya Sabha 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 the other legal requirements

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha are consistent with the preceding year as per the requirement of the 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 Ayurvedic Stores account had an overstatement of Rs. 184,858 compared to the issuance registry.	In the future, Acitos will be taken to take the accurate value of Ayurveda into account.	The difference should be identified and the accounts corrected.
(b) Although the closing balance of the Ganthalawa Ayurveda Center as of December 31, 2024 was Rs. 418,403, the stock value was shown in the financial statements as Rs. 16,690, which was the understatement of the stock by Rs. 401,713.	The correct stock value will be taken into account.	- Do -
(c) The amount of Rs. 1,922,896 paid for the remaining work at the compost yard had not been recorded in the accounts.	The correction will be made when preparing the final accounts for 2025.	The accounts should be corrected.
(d) The amount of Rs. 1,734,519 payable and receivable related to the construction of the vehicle yard had not been accounted for under debtors and creditors.	Action will be taken to correct, when preparing the final accounts for coming year.	- Do -
(e) The value of the constructed buildings worth Rs. 24,086,581 had not been accounted for.	Action will be taken into account when preparing the final accounts for the coming year.	- Do -

(f)	The amount of Rs. 797,092 receivable under the Regional Development Assistance Project had not been accounted for as a receivable balance.	Action will be taken into account when preparing the final accounts for the coming year.	The accounts should be corrected.
(g)	Although the interest receivable on fixed deposits was Rs. 309,558, it was shown as Rs. 226,560 in the account, which resulted in the debtors being understated by Rs. 82,998.	The accurate value will be calculated and taken into account when preparing the final accounts for the coming year.	- Do -

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
As at 31st December of the year under review, there was a difference of Rs. 5,872,773 between the balance as per the accounts of 10 account subjects and the balance as per the schedule.	Action will be taken to carry forward the correct values.	The difference should be identified and action should be taken to correct it.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to the lack of evidence for 07 account subjects valued at Rs. 329,731,728 as stated in the financial statements, it was not possible to satisfactorily verify them.	The relevant subject officers have been informed about the non-submission of information on 07 asset and liability balances and action will be taken to prepare the schedules mentioned in the audit query and prepare and update the documents related to the scope of the subject before August 01, 2024.	Evidence supporting account balances should be submitted.

1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Sabh	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
(i) Section 24	Action had not been taken to identify roads owned by the Sabha and gazette them.	The necessary action will be taken to identify deficiencies in the road inventory and gazette sabha-owned roads.	Action should be taken in accordance with the provisions of the Pradeshiya Sabha Act.
(ii) Section 134	Although developed areas within the area of authority should be identified from time to time and assessment tax should be levied, action had been taken to levy assessment tax only on areas identified before 1980.	The assessment tax for the year 2024 was collected according to the assessment carried out in the year 2008, and from the year 2025, it will be collected in relation to 04 divisions according to the assessment carried out in the year 2016.	Action should be taken in accordance with the provisions of the Pradeshiya Sabha Act.
(iii) Section 152	Action had not been taken to conduct a survey and to collect taxes on professions such as banks, finance companies, mortgage businesses and legal consultancies located within their area of authority.	A survey will be conducted on professions such as banks, finance companies, mortgage business, legal consultants and action will be taken to collect taxes.	Action should be taken in accordance with the provisions of the Pradeshiya Sabha Act..

(iv)Section 153 (1)	Undeveloped lands within the Pradeshiya Sabha of authority had not been identified and action had not been taken to collect taxes accordingly.	The undeveloped lands will be identified and tax will be collected accordingly.	Action should be taken in accordance with the provisions of the Pradeshiya Sabha Act
(b) The Pradeshiya Sabha (Finance and Administration) Rules, 1988, published in the Extraordinary Gazette No. 554/5 dated 17th April 1989			
(i) Rule 53	Although an annual survey was to be conducted and reports prepared regarding all sources of income within the Sabha area, action had not been taken accordingly.	That has been stated in the budget	Action should be taken in accordance with the provisions of the Pradeshiya Sabha Act
(ii) Rule 218	Land and buildings costing Rs. 225,545,244 had not been surveyed once in every year. .	The necessary actions for the survey work will be followed and the survey work will be carried out.	Action should be taken in accordance with the provisions of the Pradeshiya Sabha Act
(c) Rule 32 of the Secretary to the Ministry of Justice's Circular No. 04/1994 dated 18th February 1994	Although every executive officer is required to declare his assets and liabilities annually, it had not been act accordingly.	Action will be taken in the coming years to obtain annual asset and liability statements from executive officers.	Action should be taken in accordance with the circular of the Ministry of Justice.

- | | | | | |
|-----|--|---|---|--|
| (d) | Section 16(2) of the Audit Act, No. 19 of 2018 | The performance report that should have been submitted with the financial reports had not been submitted. | The performance report will be submitted along with the financial report next year. | Action should be taken in accordance with the Audit 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. 19,272,266 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 10,849,567 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 Chaiman of the sabha 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..000	Rs..000	Rs..000	Rs..000	Rs..000	Rs..000	Rs..000	Rs..000
-----	-----	-----	-----	-----	-----	-----	-----	-----
Rates and Taxes	5,275	2,283	1,709	15,276	7,752	3,151	1,547	14,278
Rent	5,574	18,351	15,561	9,270	28,589	5,946	4,205	6,480
Other revenue	70	3,368	7,693	512	<u>475</u>	<u>2,259</u>	=	<u>8,205</u>
Total	<u>10,919</u>	<u>24,002</u>	<u>24,963</u>	<u>25,058</u>	<u>36,816</u>	<u>11,356</u>	<u>5,752</u>	<u>28,963</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) At the end of the year, the arrears rent due from 23 shops was Rs. 2,824,194, therein, Rs. 1,691,962 had been outstanding for more than two years.	The arrears and balances due for the year are being recovered.	Action should be taken to recover the arrears.

(b)	Although acreage tax should be levied on each hectare of land established within the Pradeshiya Sabhas, whether under permanent or regular cultivation, in accordance with Section 134(a) of the Pradeshiya Sabha Act No. 15 of 1987, action had not been taken accordingly.	Action will be taken to recover acreage tax by following necessary procedure to recover them.	Action should be taken to increase income.
(c)	The total assessment amounting to Rs. 2,529,800 which is due on properties belonging to government departments located within the Sabha area remained uncollected.	Action will be taken to recover outstanding amounts from government departments without delay.	The relevant departments should be contacted and action should be taken to recover the outstanding amounts promptly.

3. Operational Review

3.1 Fulfilment of 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 Public and amenities by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comments of the Sabha	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, by-laws should have been enacted to carry out 28 main matters, but as of December 31, 2024, by-laws had been enacted for only 05 matters.	By laws have been enacted for 05 matters and necessary actions are being taken to enact by-laws for other matters as well.	Actions should be taken in accordance with the provisions of the Pradeshiya Sabha Act.

3.2 Management inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
Although land development activities carried out in the area of authority should be regulated, those activities had not been carried out efficiently.	Since securing land ownership is a conflicting task, the number of applications submitted is low. Action will be taken to conduct a field inspection in the future to increase the number of applications received.	Land development activities should be regulated efficiently.

3.3 Resources released to other organizations

Audit Observation	Comments of the Sabha	Recommendation
According to Section 19(XII) of the Pradeshiya Sabha Act No. 15 of 1987, the prior approval of the Minister in charge of Local Government Affairs was required to be obtained when granting a portion of the land or building belonging to the Sabha on a long-term lease basis for more than 03 years. However, a long-term lease agreement for 20 years was entered into with Sino Lanka Power General Private Limited without the prior approval of the Minister in charge of the relevant subject and a decision was made to install a solar power system on the roof of the Sabha building.	Since the roof of the office building needs to be repaired, no agreements have been signed to install a solar power system, and action has been taken as per the instructions of the Local Government Commissioner.	Agreements should be amended in a way that generates income and legal advice should be followed.

3.4 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
(a) When considering the approved staffing of the Sabha and the actual number of employees, it was revealed that there were 25 vacancies in 12 posts. Attention had not been paid to filling these vacancies immediately.	Action has been taken to fill the vacancies through 180-day appointments.	Action should be taken to fill vacancies in a formal manner.
(b) As per Financial Regulation 880 and Eastern Province Financial Circular PT/03/2021, actions had not been taken to obtain security deposit from 20 officers/employees of the Pradeshiya Sabha who were required to provide security deposit.	Actions are being taken to collect security deposit this year	The relevant officials should take actions to deposit the security deposit in accordance with the provincial financial circulars.

(c)	The amount of Rs. 411,664 due from 03 employees who left the service remained unpaid for more than 05 years.	Legal advice will be sought regarding the recovery of outstanding loan balances.	Action should be taken to recover the loan balances.
-----	--	--	--

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Sabha	Recommendation
The Sabha had established an internal audit unit but had not introduced internal audit programmes during the year under review. Also, an internal audit plan had not been prepared and the approval of the National Audit Office had not been obtained.	An internal audit plan will be prepared in the future and action will be taken to obtain approval.	Internal audit should be formalized.

Audit Observation	Comments of the Sabha	Recommendation
As per the budget prepared for the year under review, when comparing the estimated income and expenditure with the actual income and expenditure, a variation in the range of 21.57 percent to 90.70 percent was observed in 06 revenue subjects and a variation in the range of 20.91 percent to 72.89 percent in 05 expenditure subjects, the budget had not been used as an effective control instrument.	Action will be taken to use effective control measures in the preparation of the upcoming budget.	The budget should be prepared realistically.

4.3 Environmental Problems

Audit Observation	Comments of the Sabha	Recommendation
It was observed that due to the failure to carry out activities in accordance with the provisions of the National Environment Act, wild animals have come onto the road to consume garbage, causing road blockages, causing problems for both animals and local residents.	Since this problematic situation has arisen due to the lack of necessary facilities for the proper disposal of waste, An allocation of funds is scheduled to be made in the future, through which activities can be carried out according to a proper waste management plan.	Appropriate measures should be followed for waste disposal.