

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Karaitivu 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 Karaitivu 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)	A sum of Rs. 4,053,829 spent on motor vehicles and roads in the year under review had not been accounted for.	That steps will be taken to record the assets accounts.	All expenses must be properly accounted for.
(b)	Court fines of Rs. 392,569 received in the year under review in respect of the previous year had been recorded as income in the current year.	Since the fine letters were received for the months of November and December after the financial statements were prepared, no action was taken to show them as a deficit.	Income should be recognized and accounted for in the relevant period.
(c)	Rs. 16,127,181 payable for construction and industries in the year under review had not been disclosed as a liability in the financial statement.	The cash was received late.	Expenses payable should be shown as a liability in the financial statement.

1.6.2 Lack of Written Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
The necessary detailed documents had not been submitted for the total fixed assets at the beginning of the year of Rs. 4,368,793 as at the balance sheet date.	The value given at the time of the separation of Karaithivu Pradeshiya Sabha from Ninthavur Pradeshiya Sabha.	Detailed documents should be obtained.

1.7 Non-compliance

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

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliance	Comments of the Council	Recommendation
(a) Pradeshiya Sabha Act, No. 15 of 1987			
(i) Section 24 Sub-section 1(a) and (b)	The necessary steps had not been taken to prepare maps and post advertisements on the streets and roads maintained by the Sabha.	Action is being taken to rearrange and install the nameplates.	Actions should be taken in accordance with the provisions of the Pradeshiya Sabha Act.
(ii) Section 128	The assets which are utilized by the Sabha had not been identified and steps had not been taken to take over their ownership.	Action is being taken to take over the ownership.	-Do-
(iii) Section 134	Steps had not been taken to identify developed areas within the Pradeshiya Sabha area from time to time.	Action is being taken to identify new sources of income.	-Do-
(b) Rule no. 5(xii) of Pradeshiya Sabha (Finance and Administration) Rules, 1988	No steps had been taken to obtain security deposits from officers who sign cash and cheques, revenue collection officers, and officers involved in store.	Not answered	Steps should be taken to obtain security deposits from the relevant officials in accordance with financial and administrative rules.

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.6,845,122 compared to the excess of income over recurrent expenditure amounted to Rs.14,749,080 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.
(i) Rates and Taxes	25,000	-	-	-	25,000	9,180	9,180	-
(ii) Rent	10,754,000	10,166,157	9,093,793	1,072,364	8,675,000	7,690,625	6,766,985	2,699,890
(iii) License Fee	6,862,000	6,527,520	4,937,960	1,589,560	850,000	1,271,240	1,271,240	-
(iv) Other Revenue	623,000	887,619	888,019		1,215,000	561,704	561,704	-
Total	<u>18,264,000</u>	<u>17,581,296</u>	<u>14,919,772</u>	<u>2,661,924</u>	<u>1,0765,000</u>	<u>9,532,749</u>	<u>8,609,109</u>	<u>2,699,890</u>

2.2.2 Performance in Collecting Revenue

The following are observations made on the performance in collecting revenue.

	Audit Observation	Comments of the Council	Recommendation
(a)	Action had not been taken to recover the fair and beach park lease amounting to Rs.75,843 as on 31 December of the year under review.	The arrears was due to the inability to identify the relevant individuals.	Steps should be taken to recover the arrears of revenue due promptly.
(b)	There was an outstanding balance of Rs.2,008,592 at the end of the year under review from the lease of the butcher shop which awarded through tender procedures, out of which a sum of Rs.1,026,520 had to be paid over a period of 02 to 33 years.	Not answered	Steps should be taken to recover the revenue arrears of promptly.
(c)	The Sabha had lost an income of Rs. 36,000 due to non-renewal of environmental protection permits from 09 shops during the year under review.	Not answered	Environmental permits should be renewed and revenue collected.

(d)	Although stamp duty refund applications regarding land transactions were required to be submitted to the Registrar General at the end of each quarter, the necessary steps had not been taken to calculate and apply the stamp duty for the year under review.	Not answered	Stamp duties should be calculated and collected.
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3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Due to the failure to take steps to lease 14 shops owned by the Sabha from 2018 to the end of 2024, an income of Rs. 1,512,000 had been lost.	Not answered	All shops should be leased out and revenue should be collected.
(b)	A street light register had not been maintained, including the number of lights, type, capacity of light bulbs, and number of electric poles regarding the installation and maintenance of street lights in the Sabha area.	Not answered	Steps should be taken to properly maintain the street light register.
(c)	The Sabha had collected Rs. 242,689 for unauthorized constructions and although according to the Urban Development Authority's planning circulars No. 08 and 30 September 1987, a separate bank account should be maintained for this purpose and the income should be credited to that account, the Sabha had not done accordingly.	Not answered	A separate bank account should be maintained and income should be credited.
(d)	In terms of the Value Added Tax Act No. 14 of 2002, persons liable to pay Value Added Tax are required to obtain a TIN number. However, without registering for value added tax the Sabha had levied Rs.41,287 as value added tax and social security tax in contrary to the above Act, when	Not answered	Since it is illegal to charge Value Added Tax and Social Security Tax without being registered for tax, steps should be taken to register for tax.

collecting fines for unauthorized constructions during the year under review.

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| (e) | No steps had been taken to fill the Grade III vacancies at the Mawadipalli Library. | Not answered | Steps should be taken to fill the relevant vacancies. |
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3.2 Idle/ Under Utilized Assets

Audit Observation

Arrangements had not been made to lease out 14 shops in the shopping complex, which was constructed at a cost of Rs.14,347,200 under the North-East Coast Social Development Project and handed over to the Sabha in 2009.

Comments of the Council

Not answered

Recommendation

Arrangements should be made to lease all shop spaces.

3.3 Assets Management

Audit Observation

Comments of the Council

Recommendation

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| (a) | The value of 29 lands, buildings and vehicles used by the Sabha had not been assessed and accounted for. | Not answered | The value of land and buildings should be assessed and accounted for. |
| (b) | Action had not been taken to take over the ownership of 22 vehicles out of the 46 vehicles used by the Sabha. | Not answered | Necessary steps should be taken to take over ownership of the vehicle. |
| (c) | The value of the equipment received as donations from the Department of Local Government and the Office of the Assistant Commissioner of Local Government in the year 2021 had not been calculated and accounted for. | Not answered | The value should be calculated and shown in the financial statements. |
| (d) | Arrangements had not been made to repair and utilize or auction 04 lorries, 04 tractors and 02 motorcycles owned by the Sabha. | Not answered | It should be repaired and reused or auctioned off. |
| (e) | Although the necessary documents to transfer the lands to the Sabha name where the Sabha office building, cultural | Not answered | Steps should be taken to transfer ownership of the assets to the name of the |

center, shopping mall and solid waste center are located have been sent to the Divisional Secretariat, the necessary steps had not been taken even by the date of the audit.

Sabha.

3.4 Procurement Management

	Audit Observation	Comments of the Council	Recommendation
(a)	The small garment factory building was renovated under the Provincial Development Assistance Programme at a cost of Rs. 8,892,852. During the field inspection conducted in this regard, only 42 24w LED bulbs and LED panels had been installed and 5 Bajaj ceiling fans less than Rs.8,000 had been installed. Accordingly, an overpayment of Rs.143,610 had been recommended and paid for the relevant works.	Not answered	Necessary action should be taken regarding overpayments.
(b)	Although the payments related to Value Added Tax should be made and sent to the Commissioner General of Inland Revenue with a copy to the Auditor General on or before the 15th day of the following month as per Procurement Guidelines No. 5.4.12, such action had not been taken in respect of the payments of Rs. 3,564,504 for the construction of buildings in the year under review.	Not answered	Procurement guidelines should be followed.
(c)	In accordance with Procurement Guidelines No. 4.3.1 and 2, when preparing the total cost estimate in cases where the contractor is not registered for VAT the relevant value should not be included in the total cost estimate. However, a sum of Rs. 90,000 had been charged as value added tax when preparing cost estimates for someone who was not registered for tax.	Not answered	-Do-.

3.5 Human Resource Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Steps had not been taken to properly plan the staff of the Sabha, provide necessary training to all officers and utilize human resources efficiently in accordance with the Public Administration Circular 02/2018 dated 24 January 2018.	Not answered	Action should be taken as per the circular provisions.
(b)	Although approval had been received for 02 pre-school teachers as per the approved cadre of the Sabha, action had not been taken to fill those vacancies up to the date of audit.	Not answered	Action should be taken to fill vacancies and provide maximum service.

4 Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Council	Recommendation
Although the financial statements should be submitted to the Auditor General by 28 February 2025 as per Provincial Treasury Circular PT/18/2022 dated 15 December 2023, the financial statements for the year under review were submitted for audit on 10 March 2025.	Not answered	Financial statements must be submitted to the Auditor General on or before 28 February.

4.2 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
The Sabha had not taken steps to collect the necessary data and allocate the necessary financial provisions accordingly to achieve the sustainable development goals and targets in accordance with the circular number ස.සෙ.පොළ/2018.61 dated 23 April 2018.	Not answered	Action must be taken to achieve sustainable development goals.

4.3 Solid Waste Management

Audit Observation

Since the waste collected by the Sabha is not classified into biodegradable and non-biodegradable waste, organic fertilizer production activities have not been carried out and the machinery installed at the center has been left unused and idle.

Comments of the Council

Not answered

Recommendation

The organic fertilizer production center should be activated and the machinery should be utilized.

4.4 Non-achievement of expected Output Level

Audit Observation

Although a sum of Rs.998,330 from the financial allocation of the year under review had been paid to the National Water Supply and Drainage Board to provide drinking water to the public residing at the Palaiyadi Pillaiyar Kovil Cross Street, Karaithivu - 09, water supply had not been provided so far.

Comments of the Council

Not answered

Recommendation

The necessary steps should be taken to obtain water supplies should be expedited.