

Katana Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katana Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement , statement of changes in net assets/ equity , 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 provisions 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 Katana Pradeshiya Sabha as at 31 December 2020 , and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities .

1.2. Basis for Qualified Opinion

I express qualified opinion based 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 Sri Lanka Public Sector Accounting Standards, 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 following recommendations which I made on financial statements for the preceding year had not been implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.2.1(a), 1.2.2(a), (b), 1.2.4,1.2.5(b)(i), 1.2.5(c), 3.1.1 and 3.3.1(b)

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Non-Compliance with the Public Sector Accounting Standards for the Local Authorities

Non- Compliance with reference to the relevant Standard	Comment of the Sabha	Recommendation
(a.) Court Fines and Stamp fees of accumulated to Rs.15,000,000 had been stated on accrual basis and accrued an amount of Rs.49,770,581 even though the revenue received by the exchange transactions should be identified when they were actually realized according to the note No.3.4 of Standard FS 5, therefore the revenue had been overstated by that amount.	The Accounting Policy on the Stamp Duty and Court Fines should be corrected as accrual basis.	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.
(b.) kmxxThe Assets of the Sabha had not been revalued under standard No.18.7 and the letter No.LGD/10A/4/ස.8/2019 dated 01 February 2021 by the Commissioner of Local Government.	Inform that the actions would be taken to revalue the Assets owned by the Pradeshiya Sabha in the future.	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.
(c.) The Fixed Assets total value of Rs.647,755,973 had been categorized only der Lands, Buildings, Machinery and Equipment, Furniture and Fittings, Motor Vehicles, Other Equipment and Library	Inform that actions would be taken to categorize the assets according to the type of asset.	Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

Books even though it should be categorized under 14 categories when preparing the financial reports from the year under review according to the Standard No.3.5.

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| (d.) The interest paid of Rs.1,054,025 had been stated under the Administrative Expenditure and the loan instalments paid of Rs.1,860,000 had been stated under the financial Expenditure except for stating them under the Assets even though the interest paid should be stated under the Financial Expenditure of the detailed revenue statement according to the recommended format of the Standard. | Inform that it had been erroneously stated interest paid under the Administrative Expenditure and loan instalments paid under the financial expenditure. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions. |
| (e.) Donations received of Rs.116,301,876 had been stated the whole amount as revenue under the note No.05 and not realized any amount of money left as the excess and stated under note No.10 as unidentified donations, even though it had been mentioned in the Standard No. 9.9 it should be deducted the capital expenditure from the donations received and stated the left excessive amount as capital or net assets as unidentified donations under note No.10. | Inform that the accounts would be presented according to the accounting policies in the year 2021. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions. |
| (f.) The Note No.5 and No.10 had not been prepared under the recommended formats of the Accounting Standards. | Inform that the accounts would be presented according to the accounting policies in the year 2021. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions. |
| (g.) All the Fixed Assets had not been depreciated according to the Standard No.6.11. | Actions would be taken to depreciate all the assets in the future except the Lands. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions. |
| (h.) Even though it should be declared the contingent liabilities in the financial reports under Standard No.11.10, 05 Court Cases against the Sabha had not been revealed. | The payable amount as at 31 December 2020 had been stated as the creditors in the Final Accounts. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Institutions. |

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) External grants received during the year under review had been Rs.120,722,018 and out of that Rs.6,353,445 of finished work as fixed assets and Rs.57,187,573 of ongoing work as unfinished work had not been stated in the accounts	Action will be taken to present in the accounts from the year 2021.	The accounts should be accurately made.
(b) The roads, culverts and other infrastructure items developed of Rs.51,081,887 during the year under review had not been stated in the accounts even though it should be declared the roads, culverts and other infrastructure items separately under different codes of the Property Plant and Equipment according to the detailed explanation EG 3.2 on standards.	Action will be taken to present in the accounts from the year 2021.	The accounts should be accurately made.
(c) The balance of the revenue contribution to the capital account of Rs.647,755,973 as at the end of the preceding year had not been adjusted by the net assets and equity capital statement and stated in the assets and liabilities statement at the end of the year under review.	Action will be taken to present in the accounts from the year 2021.	The accounts should be accurately made.
(d) A difference of rs.291,331,835 had been observed between the cash flow statement and the account Sabha prepared even though the balance in the cash flow statement by adding the opening balance of cash and cash equivalents to the cash and cash equivalents during the year under review should be equal to the balance at the end of the year in the account.	It would be corrected by the cash flow statement for the year 2021.	The Interest on Fixed Deposits relevant for the year should be calculated and stated.

1.6.3 Unreconciled Control Accounts or Report

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs.135,371,148 relevant for 03 item of accounts, between the balances as per the financial statements and the balances as per the corresponding reports.	One item of account had been erroneously stated like that and other two items of accounts would be corrected in the future.	Actions should be taken to reconcile the balances and make them correct.

1.7 Non-Compliances

1.7.1 Non Compliances with the Rules, Regulations and Management Decisions

Ref. to the rules	Non- Compliance	Comment of the Sabha	Recommendation
Section 07 of relevant to the Accounting of Financial Administration in Pradeshiya Sabhas No.215/8 dated 24 December 2019	60 Zim cards had been taken and distributed among 60 staff officers under a decision taken in a general meeting held on 13 December 2019 and paid an amount of Rs.105,393 as telephone bills by the Sabha fund against the rules.	Inform that an approval had been obtained to give Zim Cards according to a suggestion made by the chairman in the general meeting held on 13 December 2019.	Actions should be taken according to the regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented made under the Public Sector Accounting Standards of Sri Lanka , excess of the Sabha amounted to Rs. 220,682,923 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.170,504,415.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
The rates in arrears as at the end of the year under review had been Rs.35,023,471 and an amount of Rs.12,702,542 had been recovered as at the audit date 31 December 2021.	Actions were being taken to recover the receivable amount.	The Strategies to collect the receivable tax.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Transactions with Contentious Nature

Audit Observation	Comment of the Sabha	Recommendation
Free Vegetable Bags of Rs.1,954,454 had been distributed among the Public within the area by the Sabha Fund even though it had been mentioned by the with no date letter No.೩/೨೬/7/1/8/1/೨೦೨೦ on March 2020 by the Secretary of the Ministry of Home Affairs and Local Authorities that nothing could be delivered freely by the Sabha Funds. Actions had not been taken considering all the suggestions of the members and considering the most suitable one therefore the value of 06 vouchers on the above payments, of Rs.909,620 had been done even though the members of the finance and policy planning committee declared their objection on the 01 of June and the members of the Sabha had not granted the approval on 12 June 2020.	The letter with no date had been received after 31 march 2020 at that moment Sabha had been finished distributing the Vegetable Bags.	Actions should be taken according to the Circulars and the payments should be one with approval of the Sabha.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a.) A 28 Perches Land in Andiambalama given to the Pradeshiya Sabha for public affairs had not been taken by a deed. A 2.65 perches of the land had been utilized by a house under construction and a boundary wall foundation without an authority because of not making regular actions to secure its ownership. Actions had not been taken to remove the unauthorized constructions and take over the ownership of the land according to the advices of the Commissioner of Local Authorities on 01 July 2020.	Inform that the legal actions are being taken.	Actions should be taken to secure the assets of the Sabha.

(b.) Requested Stamp Duty of Rs.68,327,779 for the year 2016 to 2018 had been refused to be paid by the Revenue Commissioner of the Western Province or various reasons and mentioned that it could be paid after the necessary adjustments according to those reasons but actions had not been taken to obtain those amount of stamp duty after making the relevant adjustments.

Inform that actions would be taken to recover the Stamp Duty.

Actions should be taken to obtain the Stamp Duty relevant for the Sabha.