

Katana Pradeshiya Sabha - 2021

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 2021 comprising the statement of assets and liabilities as at 31 December 2021, 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 reported 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 2021, 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.

1.6 Audit Observations on the Preparation of Financial Statements

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

| Audit Observation | Comment of the Sabha | Recommendation |
|---|---|--|
| (a) Capital Grants received for the Capital Expenditure should be declared under note no.10 of the Comprehensive income Statement and on the Statement of Assets and Liabilities under net assets/equity according to the Circular No LGD/09/2019 (i) dated 24 August 2020 by the Commissioner of Provincial Council but the Capital Grants of Rs.60,214,195 received during the year under review had not been declared in the accounts accordingly. | Inform that a proper training had not been taken about the new method of accounting therefore the accounts could not be prepared. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards and the circulars of the Commissioner of Provincial Council. |
| (b) The Property Plant and Equipment should be depreciated under the Detailed Explanation on the Standards No.EG 3.3 the Property Plant and Equipment had not been depreciated and the basis for depreciation had not also been declared in the accounting policies. | Inform that the depreciation could be updated in the next year. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards and the circulars of the Commissioner of Provincial Council. |
| (c) Even though the Fixed Assets should be reported under 14 categories according to the Standard No.3.5 and the letter No.LGD/10A/4/20.3/2019 dated 12 February 2021 by the Commissioner of Provincial Councils, the assets for the year under review had been reported under 10 categories and the Computer and Equipment had been shown in the Furniture and Fittings Account. | Inform that the categorization of the Computer and Equipment and Furniture and Fittings under the Assets would be done after the Assets revaluation had been carried out. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards and the circulars of the Commissioner of Provincial Council. |

1.6.2 Accounting Deficiencies

| Audit Observation | Comment of the Sabha | Recommendation |
|---|--|---|
| (a) A land valued for Rs.11,000 in the preceding year and revalued for Rs.300,000 had been debited to the Lands and Account and stated as a revenue account except for stating adjusting through the accumulated fund account. | Actions would be taken to make it correct in the future. | The Accounts should be accurately made. |
| (b) Values of 12 lands of 03 Acres 03 Roods and 25.72 Perches received by land sales in the years 2018 and 2019 had not been calculated and stated in the Property, Plant and Equipment Account. | Inform that the actions would be taken to state. | The accounts should be accurately made. |
| (c) An expense for making notices of Rs.74,817 regarding the preceding year had been considered as an expenditure for the year under review and reported. | Inform that the provisions for creditors could not be made erroneously and the payments had been done by the Provisions for the year 2021. | The accounts should be accurately made. |
| (d) The value of the public lands received by the Sabha of Rs.3,039,000 had been stated by a Journal Entry as a government grants for the recurrent expenditure in the Statement of Detailed Revenue Note No.04 therefore the recurrent revenue had been overstated by that amount. | Action would be taken to make it correct by the final accounts for the year 2022. | The accounts should be accurately made. |
| (e) The Capital Grants of Rs.57,165,195 for the year under review should be declared under Note No.10 of the Comprehensive income statement but except for that it had only been realized on the Revenue by Note No.05 and the excess for the year had been overstated because all of the Capital Grants realized on the revenue. Also that value had not been recognized in the Statement of Assets and Liabilities. | Inform that actions would be taken to make the accounts accurately in the future. | The accounts should be accurately made. |

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| (f) | The financial expenditure of Rs.2,149,394 that should be stated under the Note No.09 had been stated under Note No.08 and the Note No.09 had been made a blank report. | Inform that actions would be taken to make the accounts accurately in the future. | The accounts should be accurately made. |
| (g) | When making corrections through the Journal Entries of Stock material valued of Rs.456,380 that Issued but not transferred to an expenditure head and purchased but transferred less to an Expenditure head the Accumulated Fund Account had been debited except for debiting the Expenditure Head and Credited to the General Stock Account therefore the Accumulated Fund Account had been understated by that amount. | Inform that the Accumulate Fund Account had been erroneously debited. | The accounts should be accurately made. |
| (h) | An expenditure of Rs.550,000 for making a vehicle yard had been accounted under renovations and maintenance without capitalizing it therefore the excess and the building account had been understated by that amount. | Actions would be taken to make it correct in the future. | The Accounts should be accurately made. |
| (i) | Expenditure of Rs.107,090 for laying tar and of Rs.1,000,000 for laying pre-mix for the roads had been accounted as maintenance expense without capitalizing. | Actions would be taken to make it correct in the future. | The Accounts should be accurately made. |
| (j) | According to the Section No.02 of the letter No.LGD/10A/4/20.8/2019 dated 22 February 2021 by the Commissioner of Provincial Councils the unsettled balances of Rs.1,231,339 that should be declared under the reserves and allocations in the Statement of Equity Changes had been stated under stocks as the Note No.14. | Action would be taken to make it correct by the final accounts for the year 2022. | The accounts should be accurately made. |

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| (k) | Roads, Bridges and Culverts of Rs.38,617,434 had been stated under the Property, Plant and Equipment but because of incurring 30 projects which had only made the agreements valued of Rs.18,080,000 to the above Property, Plant and Equipment value except for the work in Progress it had been overstated. | Inform that a proper training had not been taken about the new method of accounting therefore the accounts could not be prepared. | The accounts should be accurately made. |
| (l) | Even though the balance of the Accumulated Fund as at the end of the year under review should be shown after the adjusting the errors of the Accounting Policies to the balance of Accumulated Fund Account as at 01 January 2020 stated in the Statement of Net Assets/Equity Changes and Adjusting of the detailed revenue for the year under review to the year's total detailed revenue balance, the balance of the Accumulated fund account of Rs.1,101,440,267 had not been adjusted and declared in the statement of equity changes. | Inform that a proper training had not been taken about the new method of accounting therefore the accounts could not be prepared. | The accounts should be accurately made. |
| (m) | The amount of Rs.150,000 for the Project of installation Fitness Training Equipment at Raddolugama Public Stadium had been stated in the accounts as allocations for the provisions for Creditors and Debtors for the year under review even though it had been mentioned by the letters of the Divisional Secretary, Katana dated 13 July 2021 and 22 March 2022 that the provisions by the decentralized budget would not be continued. | Inform that it had been included in the creditors register till it would be reimbursed by the Divisional Secretary . | The accounts should be accurately made. |

1.6.3 Unreconciled Control Accounts

Audit Observation

Comment of the Sabha

Recommendation

There was a difference of Rs.24,649,821 relevant for 12 item of accounts,as at 31 December 2021 between the balances as per the financial statements and the balances as per the corresponding reports.

Actions would be taken to make it correct by the next year.

Actions should be taken to reconcile the balances and make them correct.

1.6.4 Accounts Receivable

Audit Observation

Comment of the Sabha

Recommendation

(a) Actions had not been taken to settle Rates Overpayment of Rs.321,301 regarding the year 2017 to 2020 included in the Miscellaneous Deposits.

Actions would be taken to make it correct in the future.

The Accounts should be taken to settle.

(b) Actions had not been taken to recover industrial advance of Rs.119,957 descending over from 05 years.

Inform that it was a balance descending over from number of years.

Actions should be taken to recover.

1.6.5 Lack of Documentary Evidence for Audit

Assets of Rs.3,804,846 could not be satisfactorily vouched due to the lack of necessary details.

1.7 Non-Compliances

Non Compliances with the Rules, Regulations and Management Decisions

| Ref. to the rules and Management Decisions | Non- Compliance | Comment of the Sabha | Recommendation |
|---|--|---|--|
| (a) Pradeshiya Sabha Act No.15 of 1987 Section 182 | Even though the Approval should be obtained by the Minister in Charge of the Subject when offering reliefs for keeping the stalls closed down according to the letter No.LGD/06/02/04 dated 9 June 2020 by the Commissioner of Provincial Councils but without any approval 50 percent of the stall rent of Rs.62,854 had been written off by the Weekly Fair lease rent . | Inform that the actions would be taken to obtain the approval of the Minister in Charge of the Subject. | Approval of the Minister in Charge of the Subjects should be obtained. |
| (b) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| i. F.R. 396 | Actions had not been taken according to the referred rules on 15 cheques of Rs.214,960 issued but not cleared by the bank lapsed over 06 months. | Actions would be taken to settle. | Actions should be taken according to the referred financial regulations. |
| ii. F.R. 570(c) and F.R. 571(3) | Actions had not been taken according to the financial regulations on deposits of Rs.9,266,944 deposited and lapsed over 02 years. | Actions would be taken in the future. | Actions should be taken according to the referred financial regulations. |

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| (c) | Circular NoLGD/09/2019(i) dated 24 August 2020 by the Commissioner of Provincial Council | The Limits of the Advance B Account of Officials of the Provincial Government should be approved according to the format LG 21/2 but actions had not been taken by the Sabha to obtain the approval for the limits of the Advance Account and the Advance B Account had not been presented with the Financial Statements. | Inform that the Audit would be noticed after forwarding the Advance Accounts limits to the next Board Meeting. | Actions should be taken according to the referred financial regulations. |
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2. Financial Review

2.1 Financial Results

According to the financial statements presented Surplus of the Sabha amounted to Rs.167,365,734 for the year ended on 31 December 2021 as compared with the corresponding Surplus for the preceding year amounting to Rs.220,682,923.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

| Audit Observation ----- | Comment of the Management ----- | Recommendation ----- |
|---|--|---|
| Only Rs.12,702,542 had been recovered out of the arrears as at the beginning of the year under review of Rs.35,023,000, therefore the collection of arrears had been in a weak situation. | Inform that actions would be taken to make a successful progress in the collection of arrears. | Actions should be taken to recover the arrears in revenues. |

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 Management Inefficiencies

| Audit Observation | Comment of the Management | Recommendation |
|---|---|---|
| (a) Even though the public occupation land of 17.5 perches located at Sampath Place in Akkara Panaha Grama Niladari Division had been legitimately assigned for the Sabha on 27 June 1994 the Sabha Property had been under unauthorized consumption by outside parties since long time ago Actions had not been taken to protect the Sabha Property. | Inform that a law suit had been imposed in the Magistrate's Court on this matter. | Actions should be taken on protecting the Sabha Property. |
| (b) Because of not taking necessary actions to acquire the 45 perches public occupation land assigned for the Sabha from the Auctioned Land named Paragahawatta Estate in the year 1995 The Owner of the neighbouring land had constructed an entrance road to his land laying concrete. | Inform that actions are being taken to make the correct. | Actions should be taken on protecting the Sabha Property. |
| (c) It had been observed that the Land where the Singith Uyana Kindergaten and the Daycare Centre at Raddolugama Housing Scheme located, assigned for the Sabha through a Deed in the year 2008 by the National Housing Development Authority had been leased out by a Welfare Society to another party and earning rent income. | Inform that actions had been taken to appoint a Committee to decide how to make actions under the control of the Sabha. | Actions should be taken legally against unauthorized consumption of Sabha Property. |
| (d) Even though the Deputy Commissioner of Provincial Council Gampaha District had stated by the letter No.LGD/GM/1/7/common/D-14-2021 dated 19 April 2021 about the ability to recover the surcharge amount of Rs.275,874 paid by the Sabha Fund for the delay of paying the contribution amount to the Employee's Provident Fund during the year 2001-2015 from the responsible parties by imposing law suits but no any action had been taken on this as at 22 January 2022. | Actions are being taken to recover now. | The amount should be recovered by the responsible officers. |

3.2 Controversy Transactions

| Audit Observation | Comment of the Management | Recommendation |
|--|--|--|
| ----- | ----- | ----- |
| <p>Rs.2,376,460 had been taken by the auctioneer of the land auction sale of the Project Heritage Grow as the 1 per cent tax charge on the sale on 21 July 2016. The auctioneer had been requested to relief the per cent tax amount on 21 May 2021 as the Project had been discontinued but the Sabha had already send the tax relief proposal to the Finance and Policy Committee on 23 April 2021 and obtained the recommendations and presented it to the Board Meeting on 17 May 2021 therefore that transaction had been controversial. Also this 1 percent sales tax amount had been paid on 07 July 2021 under the sanction of the President of Rs.23 hundred thousand as an emergency payment exceeding his payment limit of Rs.15 hundred thousand. Also the public land assigned by the auctioneer to the Sabha had been returned to the auctioning company through a deed of transfer on 07 July 2021 violating the Section 19(x) of the Pradeshiya Sabha Act No.15 of 1987.</p> | <p>Recommendations had been given to obtain the advices of the Commissioner of Provincial Council and the voucher had been signed and sent by the company after accepting the cheque of Rs.2,376,460 for 1 percent sales tax and a letter had been sent to obtain the receipt on 11July 2022 and it would be presented to the audit after receiving the receipt.</p> | <p>Actions should be taken according to the recommendations of the Commissioner of Provincial Council and the regulations of the Pradeshiya Sabha Act.</p> |

3.3 Assets Management

Unutilized assets

| Audit Observation | Comment of the Management | Recommendation |
|---|---|---|
| ----- | ----- | ----- |
| <p>A building of Length 24 Feet 9 inches and width 21 Feet constructed in the year 2014 for the use of the people who consumes the walking path in the Walisinghe Harishchandra Stadium had been idled without any use and no any expenditure on this had been stated in the Sabha Reports.</p> | <p>Inform that the actions had been taken to allocate further provisions for this building and would be developed as an Auditorium.</p> | <p>Constructions should be carried out after proper planning.</p> |

3.4 Not Allocation of Provisions

Audit Observation

Even though the Sabha had not accepted the supplementary estimates to implement Projects under external provisions in the year 2021, 66 Projects had been made agreements and implemented under those provisions. Later Provisions for the Creditors had been allocated to pay the contractors the contract expenditure of Rs.48,174,770 by the recommendation of the President but could not be paid as at 30 March 2022.

Comment of the Management

Inform that the recommendation by then president had been obtained to make the payments for the Projects made agreements during the year under review by the Sabha.

Recommendation

The Budget Provisions should be allocated before make the agreements for the Projects.

3.5 Procurement

3.5.1 Goods and Services

Audit Observation

The Order to purchase a 10,000 Litres Gully Bowser had been recommended by the evaluation committee to offer to a private company for an amount of Rs.12,956,400 but the bid of Rs.11,800,000 from another company (Agency Company) for the same kind of machine manufactured in the same country had been rejected. This purchase still could not be completed because the Lorry for the Gully Bowser would be supplied for the selected company after it was ordered by the Agency Company. The Performance Bod had not been obtained according to the condition No.06 of the Bid Documents also the Bid Security of Rs.90,000 had not been taken to the revenue even though the task had not been completed.

Comment of the Management

Inform that the purchase could not be completed because of an enjoining order imposed by the government and it had been decided to purchase by the same company recommended by the Technical Evaluation Committee.

Recommendation

Actions should be taken according to the State Procurement Procedure.

3.6 Human Resources Management

Employee Loans

| Audit Observation | Comment of the Management | Recommendation |
|--|---|-------------------------------------|
| Actions had not been taken to recover Rs.212,500 from an officer transferred, as at 31 December 2021 Rs.542,252 from 05 Officers retired, Rs.680,410 from 05 Officers who left the service total Rs.1,435,162 of loan balances receivable. | Inform that the Employee Loan Register is being supplied. | Actions should be taken to recover. |