

Katuwana Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katuwana Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Sabhas 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Katuwana Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures 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 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 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 Other Legal Requirements

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

- (a) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented 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	Comment of the Sabha	Recommendation
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(a) Provisions had not been made at the end of the year under review for Debtors and Creditors on 20 industries accumulated value of Rs.37,814,706 signed agreements therefore the value of current liabilities and assets had been understated by that amount.	These Projects had been done under the Government Provisions and they were not completed as at 31 December 2021 therefore the provisions for creditors and debtors had not been made, so it had not made any impact on the financial result.	Provisions for Creditors should be made accurately.
(b) Stamp Fees of Rs.6,475,245 relating to the years 2015,2016 and 2019 lapsed over 02 years that had been stated as not receivable according to the Stamp Duty Reversal Ordinance of Southern Province No.04 of 1994 had been overstated as a receivable income.	Actions would be taken to write off in the future after obtaining the necessary approval.	Revenue should be stated accurately.
(c) Rs.3,200,000 of Stamp Duty received on 27 December of the year under review had not been adjusted to the Stamp Duty Receivable account therefore the Stamp Duty Receivable had been overstated by that amount.	Sabha had been aware about this amount received directly to the bank in the year 2022 and issued a receipt, therefore the actions would be taken to adjust this in the year 2022.	Revenue receivable should be stated accurately.

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| (d) | 88 units of inventory aggregated value of Rs.1,797,291 that should be stated as the inventory as at 31 December of the year under review had been stated as Furniture and Fittings and Machinery and Equipment therefore the value of Noncurrent Assets had been overstated. | Actions would be taken to make it correct in the future. | Assets should be accurately categorized and stated. |
| (e) | An amount of Rs.305,769 spent on a construction of a building to install an ATM machine in the Kirama Town had not been capitalized under Buildings | Actions would be taken to assess and capitalize. | The capital expenditure should be accurately stated. |
| (f) | Money in Hand of the Cashier at the end of the year under review of RS.265,021 had been added to the Bank Balance except for stating as cash in Hand in the Financial Statements. | Actions would be taken to make it correct in the future. | Cash in hand should be declared in the financial statements. |
| (g) | Capital Expenditure of Rs.211,220 had been stated as recurrent expenditure in the year under review, therefore the capital Expenditure had been understated by that amount. | Actions would be taken to prevent these kind of matters in the future. | The Expenditure should be accurately categorized. |
| (h) | The over reimbursement by the Department of Provincial Council of Rs.137,044 of salary for the permanent staff and the member allowances paid for the members had not been stated as a payable balance for the year under review. | Actions would be taken to prevent these kind of matters in the future. | Liabilities should be accurately categorized. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.28,119,979 for the year ended on 31 December of the year under review as compared with the corresponding the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.9,451,482.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observation	Comment of the Sabha	Recommendation
<u>Rent</u>		
i. Actions had not been taken to recover the rent receivable from 20 stalls for the year under review of Rs.728,397.	Inform that legal actions would be taken if it failed to recover the rest of the amount.	Actions should be taken to recover the higher value arrears.
ii. The vehicle rent receivable at the end of the year under review from outside persons and associations of Rs.770,440 and actions had not been taken to recover tender charges of Rs.107,660.	Legal actions are being taken to recover the Vehicle rent descending from the year 2013, A law suit had been imposed on the tender charges of Rs.90,750 and approval to write off Rs.16,910 had been requested by the governor.	Actions should be taken to recover the arrears revenue as soon as possible.
iii. Actions had not been taken to recover the Key Money of Rs.8,330,000 at the end of the year under review from 08 stalls leased out in the year 2018.	Actions would be taken to recover the rest of the arrears.	Actions should be taken to recover the Key Money.
iv. The Party who leased out 10 Stalls in the Super Market Complex at Middeniya on 01 October 2018 signed the agreements to develop the building within 04 months from the date of agreement under the section 2.1 in the agreement but the task had not been completed and the business had not been commenced as at the end of the 31 December of the year under review. And further actions had not been taken according to the section 2.23 of the agreement to acquire the stalls back to the Sabha.	According to the Sabha decision made on 2022.06.23 Sabha would discuss with the lessee and take a decision.	Actions should be taken according to the agreement.

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 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
<p>Sabha had not been taken enough actions to recover the receivable water charges according to the section 11 of the agreement made with the customers of Rs.9,749,818 of 3897 customers during the year under review, out of that a balance of Rs.474,438 had been from 03 government institutions.</p>	<p>Cutting the water supply had not been done to make the pressure of the public lower with the situation of Covid 19 within the country that time.</p>	<p>Actions should be taken according to the Agreement.</p>

3.2 Deficiencies of Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
<p>A payment had been made of Rs.469,908 even though the task of a flat Iron frame of 20x60 mm should be fixed when attaching the G.I. Pipes to Nets in the project of laying net fence around the Pre-school at Ranasinghagoda . Even though it should be obtained a recommendations to prove that the construction had been carried out according to the agreement and the estimate when making the payments for the contract and retentions according to the 237(a)(1) and (11) of the Financial Regulations, technical officer had prepared fraudulent payment reports that shows accordingly and made the payments.</p>	<p>Actions would be taken to recover the overpaid amount.</p>	<p>Actions should be taken to recover the overpaid amount and to make disciplinary actions against who prepared the fraudulent payment reports.</p>