

Katharagama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katharagama Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, Statement of changes in net assets, Cash Flow Statement and significant accounting policies and other explanatory information for the year then ended 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 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 accompanying financial statements give a true and fair view of the financial position of the Katharagama Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for qualified Opinion

My opinion is qualified based on the facts set out 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 principle, 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 further:

- 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 whenever 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

The National Audit Act No.19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of Pradeshiya Sabha are consistent with the preceding year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No.19 of 2018.
- (b) The recommendations made by me during the preceding year as per the requirement mentioned in Section 6(1)(d)(iv) of the National Audit Act No.19 of 2018 are included in the financial statements submitted.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
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(a) The value of 09 lands and buildings 08 cemeteries and 11 community halls belonging to the Pradeshiya Sabha, had not been assessed and accounted for..	The Valuation Department has been informed to assess the lands and buildings and the officers in charge of the subject have been instructed to make a provisional assessment till then.	Accurate assessment should be done and accounts should be prepared correctly.
(b) During the year under review Although the buildings belonging to the Pradeshiya Sabha had been renovated at a cost of Rs.10,203,972, the relevant expenditure had not been capitalized and presented in the financial statements.	It has been informed that the officers in charge of the subject have been instructed to make corrections while preparing the accounts in the year 2021.	Accounts should be prepared correctly.
(c) Although , Expenditure of Rs.112,500 for the construction of a tube well in the compost yard during the year under review was to be accounted for under lands and buildings, It had been accounted under the machinery.	It has been informed that the officers in charge of the subject have been instructed to make corrections while preparing the accounts in the year 2021.	Accounts should be prepared correctly.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation

The information required for the audit in respect of 06 account subjects with the total of Rs.156,515,871 had not been submitted.

Comments of the Sabha

The Valuation Department has been informed to carry out the assessment and the officers in charge of the subject have been instructed to prepare other documents.

Recommendation

Evidence confirming the account balance shown in the financial statements should be submitted.

1.7 Unauthorized Transactions

Audit Observation

Out of the environmental protection license inspection fees charged by Sabha from 2012 to July 2020, Rs.568, 993 for 10 officers engaged in field inspections from 2012 to 2019 and an allowance of Rs.35,000 to 05 officers up to July of the year under review had been paid without formal approval.

Comments of the Sabha

Subject officers have been informed to provide information in this regard and action will be taken to rectify it.

Recommendation

The rules, regulations and ordinances should be complied with.

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 2020 amounted to Rs.9,038,201 as compared with the excess of revenue over recurrent expenditure amounted to Rs.7,648,306 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation

Fixed billboards fee revenue of Rs.189,900 which is Receivables for a billboard for the previous year had not been recovered.

Comments of the Sabha

It has been informed that action will be taken to recover the billboards fees in arrears.

Recommendation

Fixed billboard charges receivables should be recovered.

Shop rent

Shop rent of Rs.4,784,829 due from 254 stalls for the year under review and the amount of Rs.1,080,429 due from 224 stalls for the previous year had not been charged.

The shopkeepers are refusing to pay the assessed shop rent and it had been informed that it was difficult to take legal action as no agreement has been reached in the implementation of the 2012/13 assessment.

Shop rent in arrears should be recovered.

3. Operational Review

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 people and amenities by the Council under Section 03 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

A total of Rs.455,367 as Rs.105,162 for the year under review and Rs.350,205 for previous years had been paid informally as a 03 percent allowance of the monthly salary paid for 39 surrogate health workers from July 2017 to July 31 of the year under review.

The officer in charge of the subject has been instructed to recover the amount and it has been informed that it will be rectified.

The Laws, rules, and regulations should be complied with.