

Katuwana Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katuwana Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Operations, statement of changes in net Assets, 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 the 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 Katuwana Pradeshiya Sabha as at 31 December 2022, 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

My opinion is qualified 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 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 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

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

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year except observations 1.6 (i), (j) of this report are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The amount of Rs. 3,697,048 spent last year for the development of the compost yard owned by the Sabha had not been capitalized under land and buildings.	It will be corrected by the final account of the year 2023	Capital expenditure should be correctly identified and capitalized.
(b) The Recurring expenditure amounting to Rs.666,459 had been accounted as capital expenditure during the year under review.	It will be corrected by preparing the final account of the year 2023	Expenses should be properly identified and accounted.
(c) The cost of Rs. 662,772 incurred in last year for painting the Kirama bus station was capitalized under land and buildings.	It will be corrected by preparing the final account of the year 2023	Building repair costs should not be capitalized.
(d) The shop rooms which were leased from the year 2006 to the year 2021 had been returned / taken over by the council. However the three months security deposit of Rs.509,300 collected from the lessees had been accounted as a liability.	Relevant depositors will be informed and corrected in the future.	Arrangements should be made to settle the deposit.
(e) The total value amounting to Rs.456,694 of 19 inventory items had been capitalized as at 31 December of the year under review.	It will be corrected by preparing the final account of the year 2023	The inventory item should be properly accounted.
(f) For the improvement of the software system of the council, Rs. 281,250 had been spent during the previous year and the year under review and this value had not been accounted as an intangible asset.	It will be corrected by preparing the final account of the year 2023	Intangible assets should be correctly identified and accounted.
(g) The non-reimbursable street light maintenance charges due to non-contract with the Electricity Board amounted to Rs. 98,604 during the year under review had been accounted as income receivable.	It will be corrected by the final account of the year 2023	Revenue should be correctly identified and accounted.

- (h) 03 cupboards and book rack totaling to Rs.81,750 had not been accounted under furniture and fittings in the year under review. It will be corrected by preparing the final account of the year 2023. The fixed assets should be correctly identified and accounted.
- (i) According to the Southern Province Stamp Duty Reversal Charter No. 04 of 1994, the stamp duty of Rs. 7,063,745 related to the previous years they may not receive to the Sabha had been accounted as a receivable balance. It will be corrected by the final account of the year 2023. Revenue receivables should be correctly identified and accounted.
- (j) The value of 02 vehicles owned by the council had not been assessed and accounted even at the end of the year under review. The action will be taken to account after receiving the assessment reports. Assets should be valued and accounted.

1.7 Non-compliances

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

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

	Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Sabha	Recommendation
(a)	The Section 134 (1) of the Pradeshiya Sabha Act No. 15 of 1987	The assessment tax had not been collected for 08 areas identified as developed areas by the council in the year 2014 at the end of the year under review.	The actions are being taken to recover the Assessment Tax.	The action should be done in accordance with the Act
(b)	The Financial Regulations 396 (d) of the Democratic Socialist Republic of Sri Lanka	The aggregated value of 08 cheques amounting to Rs.29,110 which were expired more than 06 months had not been disposal.	Funders will be informed and settled in the future.	The action should be done in accordance with the Financial Regulation

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December amounted to Rs. 4,814,836 as against with excess of revenue over recurrent expenditure amounted to Rs. 28,119,979 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 presented by the chairman, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
Other Tax	1,265,150	1,583,055	1,592,385	10,560	1,156,630	1,147,780	1,133,890	19,890
Rent	15,736,200	14,201,599	13,977,834	2,100,898	15,143,900	10,525,336	10,373,436	1,877,133
Licenses Fees	1,461,350	2,278,420	2,531,220	221,500	1,527,050	1,693,532	1,751,432	474,300
Other Income	25,379,060	28,595,523	25,914,250	13,315,755	59,025,060	24,062,757	23,612,764	10,634,482
Total	43,841,760	46,658,597	44,015,689	15,648,713	76,852,640	37,429,405	36,871,522	13,005,805

2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the council.

Audit Observation	Comment of the Sabha	Recommendation
(a) The stall rent over three years of Rs.210,276 , rent due from three tender properties of Rs.90,750 and rent due from vehicle rental of Rs.747,840 had not been recovered as at 31 December of the year under review.	The action will be taken legally to recover the arrears.	Arrears of income should be collected as soon as possible.
(b) According to the circular of the Local Government Commissioner (South) No. SLG/CLG/2010/01 dated 27 December 2010, the sum key money amounting to Rs. 10,364,333 receivable from 12 shops rooms leased in the previous year and the year under review had not been recovered.	The action will be taken to recover the arrears of key money and the key money amounting to Rs.8,450,000 will be processed based on the instructions received from the Chief Ministry.	The action should be done in accordance with the circular.

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| (c) | The receivables Advertisement board charges from 05 entities amounting to Rs. 209,000 as at 31 December of the year under review, had not been recovered. | The legal action will be taken for Rs. 88,800 related to the year 2019 . | Arrears of income should be collected as soon as possible. |
| (d) | Water charges receivable as at 31 December of the year under review amounting to Rs. 12,330,075 had not been recovered and in the arrears balance between 01 to 03 years and more than 03 years balance was Rs. 1,892,542 and was Rs. 2,981,582 respectively. | The action will be taken to recover the arrears | Receivable water charges should be collected as soon as possible. |
| (e) | The action had not been taken to bring the stamp duty receivable from the Chief Secretary of the Provincial Council amounting to Rs. 22,567,025 as at 31 December of the year under review. | Rs. 1,036,186 was received and the rest of the money will be brought. | Arrangements should be made to collect the arrears. |

3. Operating Review

3.1 Management inefficiencies

Audit Observation

11 business entities that had obtained trade licenses had not obtained environmental licenses and the Sabha had not taken follow-up action on the impact of those entities on the environment in the year under review.

Comment of the Sabha

The environmental protection license has been given to the concerned parties and the action is being done to protect the environment.

Recommendation

Arrangements should be made to provide environmental license.

3.2 The asset Management

Audit Observation

The action had not been taken to acquire the legal ownership of 12 lands and 16 buildings to the Sabha as at 31 December of the year under review.

Comment of the Sabha

The ownership of the land and buildings will be legally transferred to the Sabha in the future.

Recommendation

Legal ownership of assets should be taken over.

3.3 Procurement Management

Audit Observation

07 types of goods with a total value of Rs.3,344,030 had been purchased without complying with the Section 5.6.1 of the 2006 Procurement Guidelines . Also, the action had not been taken to comply with the Section 2.8.4 of the Procurement Guidelines in relation to purchases with a total value of Rs. 1,220,390.

Comment of the Sabha

The detailed specifications will be mentioned and tender will be called and a technical evaluation committee will be appointed and relevant purchases will be made in future.

Recommendation

Action should be done in accordance with the Government Procurement Guideline

3.4 Deficiencies in Contract Administration

Audit Observation	Comment of the Council	Recommendatio
(a) In relation to 06 road development projects implemented by the Sabha, Rs. 965,067 had been overpaid due to the fact that a hand rate was used instead of a mechanical rate while preparing estimates for road cutting and making payments.	The action will be taken to recover Rs.198,973 from the retention money and that a overpayment has not been made due to the fact that the finished quantity is more than the estimate related to these construction works	The action should be taken in accordance with the Financial Regulation relevant to the over payment.
(b) An over payment of Rs. 96,725 had been done when Soil had been supplied and filed for the Horewela Goraka Muduna road reconstruction work, due to payment for soil filing without using the correct rate for that purpose.	The action will be taken to recover.	The action should be taken in accordance with the Financial Regulation156 regarding overpayment.
(c) In relation to the development work of Katuwana National School stadium, the construction of a mesh fence, hum pipe culvert, soil filling of the stadium, construction of the long jump site, construction of the discus throwing unit and the construction of the concrete drain were assigned to a contractor for Rs. 4,155,080. Then using the entire estimated amount and only filling the playground with soil, payment of Rs. 4,963,605 had been done only for above work.	It was later recognized that the development of the playground was fruitless and the contract was given to the previous contractor for filling the soil using the total estimated value and no re-tendering was done and the soil laid in the playground was taken from a private land.	The Government procurement guidelines should be followed and the soil should be taken from a registered place authorized by the Government for soil excavation.
(d) Although the conditions of Government Procurement Guidelines 2006 should have been fulfilled to pay price variations for the construction work developing Hellala waste yard, without complying to above Rs.71,975 had been overpaid as price variations.	The payment was made as per the instructions given by the Secretary to the Governor of the Southern Province.	The action should be done in accordance with the Government Procurement Guideline
(e) Rs. 1,497,995 had been paid for the supply and transportation of 37.5 mm size stones in relation to 06 road development projects that were developed with concrete metal, however it was observed that the metal compaction coefficient was not at the required percentage.	According to the general instruction letter related to the implementation of rural roads, the compressibility of the metal was between 95 and 100 percent.	The laid metal should be compacted according to the specified compression ratio.

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| (f) | For 03 road development projects, estimates had not been prepared using a correct rate. Accordingly, while paying an overpayments Rs. 587,113 had been done to contractors however it had not been recovered. | In cases of less than 200 cubic meters, the use of hand rates is not a problem. | The overpayment should be recovered from the responsible officials. |
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3.5 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
The distress loan receivable from an officer vacated post in the year 2022 amounting to Rs. 159,236 had not been recovered.	The guarantors are informed and will be recovered	Actions should be taken to recover outstanding employee loans.