

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 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 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 Katharagama 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

I expressed qualified opinion 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 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 includes 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 financial statements presented includes all the recommendations made by me in the previous year, 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	Comments of the Sabha	Recommendation
(a) 09 buildings worth Rs.490,000 demolished in 2020 and 2021 and 06 buildings worth Rs.2,480,000 whose physical existence was not confirmed were accounted as assets.	I would like to point out that there is no error in including that value in the financial statements, since new buildings are currently being constructed to replace the demolished buildings. And it will be found about other properties and attention will be given on adjusting the financial statements in the future.	The physical existence of the assets owned by the Sabha should be confirmed..
(b) As per the cash book the bank balance is Rs.743,312 but it has been presented as Rs. 524,469 in the statement of financial position.	This is an error that has been carried forward for years. It will be looked into the reasons for this change in the future and corrected it.	Correct values should be included in the financial statements.
(c) The transmission tower fee due on December 31, 2022 of Rs.60,000 had not been accounted for.	Action will be taken to adjust the transmission tower fees due on December 31, 2022 in the financial statement.	Revenue receivables must be properly accounted for in the financial statements.
(d) The cash flow statement prepared for the year under review has not shown net cash change during the year and the cash flow statement has not been balanced by including the value of cash and cash equivalents at the beginning of the year.	Further study on the preparation of the cash flow statement will be carried out and corrections will be made in the preparation of future financial statements.	Financial statements should be prepared accurately.
(e) The court fine income included in the statement of financial operations as on 31st December of the year under review had been under-stated by Rs. 302,401.	The under-stated court fine income in the statement of financial operations will be corrected.	All income should be entered correctly in the financial statements.
(f) The value of library books of Rs.622,400 purchased and Rs.189,031 received as donations in the year 2022 was accounted as Rs.436,957 in the statement of financial position.	Action will be taken to correct the under-statement of library book value in the statement of financial position.	Correct values should be entered in financial statements.

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| (g) | As on December 31 of the year under review, Advertising board fee income of Rs.766,800 had not been accounted for and Advertising board fees receivables in the statement of financial position had been understated by Rs.598,850. | Action will be taken to rectify the non-accounting of the advertising board fees income due in the year under review. | All income of the Sabha should be accurately entered in the financial statements. |
| (h) | An amount of Rs.26,175,958 received by the Sabha under the Regional Development Assistance Project and Rs.23,265,087 spent from it during the year under review was not included in the financial operations statement prepared for the year ending December 31, 2022. | In this regard, the advice will be sought from the Local Government Department in the future and decide whether to include it in the final accounts or not. | All income, expenses, assets and liabilities of the Sabha should be included in the financial statements. |
| (i) | The stamp duty income received for the year under review had been understated by Rs. 195,455 in the statement of financial operations. | Action will be taken to rectify the understatement of the stamp duty income received for the year under review. | Correct values should be included in the financial statements. |
| (j) | Shop rental income receivable as on December 31 of the year under review has been understated by Rs.137,395. | Action will be taken to rectify the understatement of receivable shop rental income in the future. | Correct values should be included in the financial statements.. |
| (k) | As on 31st December of the year under review, 326 units belonging to 08 categories worth Rs.151,356 as per inventory register had not been included in the financial statements. | Action will be taken to rectify this error. | The balance of closing stock should be calculated correctly. |

1.6.2 Unreconciled Control Accounts or Records

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| (a) | In the statement of financial position as on December 31 of the year under review, the current liabilities were stated as Rs.90,667,097, but the total of balances under the related note No. 13 was Rs.28,602,901. | Action will be taken to study this further and correct it. | Financial statement should be prepared accurately. |
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| (b) | As per statement of change in net assets prepared as on 31st December of the year under review, the equity of the Sabha was Rs.353,276,875 but in the statement of financial position it was shown as Rs.290,960,352. | Action will be taken to study this further and correct it. | Financial statement should be prepared accurately. |
| (c) | Although the finished work value of buildings constructed and renovated during the year under review was Rs.28,259,182, it was shown as Rs.22,607,732 under land and buildings, which coming under property plant and equipment. | Action will be taken to capitalize the value of the buildings constructed in the reviewed year. | The value of the assets owned by the Sabha should be accurately stated in the financial statements. |
| (d) | According to the Sabha 's assessment tax software system, the balance of assessment tax receivable as on December 31 of the year under review was Rs.19,141,070, but it was stated as Rs.18,506,012 in the statement of financial position. | The assessment tax software system was not updated and data is currently being entered into this software. After correcting it, It will be submitted to the audit. | Financial statements should be prepared based on accurate values. |
| (e) | According to the stamp deposit register, the balance due as on December 31 of the year under review was Rs.9,600, but in the statement of financial position it was shown as Rs.304,501. | Recalculation was done from the year 2016 to correct the shortcomings pointed out by the audit regarding stamp deposits, and the balance of stamp deposits as of December 31, 2022 should be revised. | The values entered in the financial statements should equal to the values in the documents and schedules. |

1.6.3 Unauthorized Transactions

Audit Observation	Comments of the Sabha	Recommendation
(a) In relation to the period from January to April 2022, 2134 litres of fuel worth Rs.369,058 had been used in excess of the approved fuel limit of 400 litres per month for the Cab used by the Chairman of the Pradheshiya Sabha.	An investigation was conducted by the Local Government Department in this regard and action will be taken according to the investigation report.	The responsible parties should be identified and recoveries should be made.

- (b) External persons were employed to collect charges from the parking lots belonging to the Pradeshiya Sabha and Rs.1,733,194 was paid to those persons as commission from the amount collected for the period from June 2019 to April 2021, but no approval was obtained for hiring persons on commission basis.
- Although we have been collecting fees from the Sabha 's car parks for many years, we have not received approval for it, and if recruitment is done again in the future, the recruit will be made on formal approval.
- Persons should be recruited and employed under formal approval.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
An aggregate value of Rs.217,225,826, in respect of 12 account balances could not be satisfactorily verified during the audit, due to non-submission of Reports of professional valuers, fixed asset records, Age analysis reports and updated documents and schedules.	Action will be taken to correct the relevant documents and schedules and maintained up-to-date in the future.	To verify the balances of assets and liabilities included in the financial statements, documents and schedules must be maintained up to date.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial regulation 104(3),(4)	The crew cab owned by the Sabha had an accident on March 30, 2022 and a full report had not been submitted by November 30, 2022.	It is informed that, measures will be taken to prevent such shortcomings in the future.	Financial regulations should be followed in relating to loss and damages.
(ii) Financial regulation 396(d)	The Sabha had not followed financial regulations in relating to 9 out-dated cheques valued at Rs.88,356	Action will be taken to follow financial regulations relating to out-dated cheque	Action should be taken to follow financial regulations relating to out-dated cheque

(iii) Financial regulation 164t Regarding the year 2022, the running charts of 20 vehicles owned by the Sabha were not submitted. Regarding the year 2022, the running vehicles owned by the Sabha, the running charts and monthly summaries for the year 2022 will be submitted to the Auditor General immediately. The financial regulations should be followed regarding the running charts and monthly summaries related to vehicles.

(b) Section 5.2.5 (b) II of Circular No. 4/HRM/2/Annual Transfer /2018 and dated 30 June 2017 of the Uva Provincial Council. All the officers who have completed 5 years of service were compulsorily subject to transfers but 10 officers had been working from 7 to 17 years had not been transferred. Decisions are scheduled to be implemented according to the orders of the 2023 Annual Transfer Board. All officers who have completed 05 years of service should undergo annual transfers.

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 2022 amounted to Rs. 11,925,420 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 12,580,070 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 relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	9,210,807	9,210,807	3,252,278	5,958,529	9,210,807	8,143,158	3,464,490	4,678,668
(ii) Rent	18,263,500	18,263,500	1,307,542	16,955,958	17,858,200	5,602,106	1,079,805	4,522,301
(iii) License Fees	2,230,500	372,250	372,250	-	3,101,700	532,050	532,050	-
(iv) Other revenue	30,210,125	98,655,285	62,483,130	36,172,155	28,274,250	19,404,169	12,618,081	6,786,088
Total	59,914,932	126,501,842	67,415,200	59,086,642	58,444,957	33,681,483	17,694,426	15,987,057

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

Audit Observation	Comments of the Sabha	Recommendation
(a) Out of the total billed revenue of Rs.126,501,842 in the year under review, Rs.59,086,642 had not been recovered by the end of the year, which was 47 percent of the total billed revenue.	Action will be taken to recover the arrears related to the year.	The annual billed income should be recovered.
(b) Out of the income of Rs.6,293,052 billed assessment tax for the year under review, Rs.1,582,317 had been collected during the year. Accordingly, as on December 31 of the year under review, the assessment tax amounting to Rs.4,590,865 was still due. It was 73 percent of the billed revenue.	Action will be taken to recover the assessment tax revenue that could not be recovered due to the bad economic situation in the country.	The annual billed income should be recovered.
(c) As on 31 December 2022, Rs.10,756,096 had not been recovered from the tender property tax revenue of Rs.13,380,425 due for renting out 19 properties owned by the Sabha in the year under review. Accordingly, the percentage of collection of tender property tax revenue was as lower percentage as 20 percent.	It is expected to take legal action to recover the arrears of income due for renting the property owned by the Sabha .	Arrears should be recovered immediately.
(d) Out of the shop income of Rs.4,522,800 due from 11 shops under lease in the year under review, shop rent of Rs.3,956,300 remained to be recovered as on 31 December 2022. It was 87 percent of the total billed revenue.	It is expected to take legal action in the future to recover the arrears due from the shops	Revenue in arrears should be recovered immediately.
(e) Rs.766,800 due from 67 fixed billboards displayed by various institutions/individuals in the Sabha area for the previous year and the year under review, had not been recovered by 31st December 2022.	Organizations/individuals have already been informed to collect the revenue due in relation to the fixed billboards and It is expected to collect that revenue.	Revenue in arrears should be recovered immediately.
(f) As on December 31 of the year under review, license revenue of Rs.60,000 due from 09 telephone transmission towers established in the Sabha area of authority had not been collected.	Necessary arrangements are being made to recover the relevant money.	Revenue in arrears should be recovered immediately.

- (g) The court fine that should have been received from the Chief Secretary of the Provincial Council and other authorities on December 31 of the year under review of Rs. 472 , 086 and stamp duty of Rs. 2,304,515 had not been remitted. The court fines receivables have been collected by now and actions will be taken to collect the stamp duty. Court fines and stamp duty due to the Sabha should be remitted.
- (h) The new public toilet located at the bus station has been leased out for first time for Rs.825,000 for one year from January 01, 2022, but the relevant lessee had not made the payment until November 30, 2022. It is expected to take legal action in this regard and collect tax. Revenue in arrears should be recovered.

3. Operational Review

3.1 Fulfilment of functions assigned by the Act

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the validity period of the 07 environmental protection licenses granted by the Pradeshiya Sabha had expired, the licenses had not been renewed and accordingly it was observed that the Sabha had not regulated the existing industries in the area of authority.	As those industries are going to be shut down now, It is expected to check again and give a report to the audit.	The existing industries in the Sabha area should be regulated.
(b) Although a fire & rescue unit was established in the Sabha , it was not possible to provide a safe and efficient service due to the non-availability of the water motor and the lack of protective uniforms.	Although this motor cannot be started automatically, it is possible to start it in a very short time, so the inability to start it automatically for fire rescue activities is not a problem. Uniforms for the year 2022 have been given to all the staff of the fire department.	The water motor shall be fixed, so that it can be started automatically.

(c) As per the decision of the Kataragama Pooja Bhoomi Development Committee, the National Physical Planning Department handed over the Kataragama Pooja Bhoomi to the Kataragama Pradeshiya Sabha for 5 years from July 16, 2020 to maintain the new toilet system, but as of November 30, 2022, this property had not been leased out.

A tenderer was selected through the formal procurement method to lease the new toilet system at the Kataragama Pooja site, but the Ruhunu Maha Kataragama temple's governing authority has prevented the tenderer from running the toilet. Although attempts have been made to reach an agreement with the governing authority in this regard on several occasions, it has failed. It has been informed in writing to pay the tender fee but that has also not been done.

The properties in the possession of the Sabha should be leased out to collect income.

3.2 Management Inefficiencies

Audit Observation

During the period of 2019-2021, 12 registries of schedules were given to 03 external persons who are not officials of the office to collect revenue on 12 occasions and no arrangements were made to collect the books or recover the related money.

Comments of the Sabha

Money has been collected for 2 of the 12 schedule books that were given to outsiders to collect revenue and legal action has already been taken for the balance.

Recommendation

Schedules registry which have been issued to outsiders over a long period of time, should be obtained to the Sabha immediately.

3.3 Operational Inefficiencies

Audit Observation

(a) The Sabha had last assessed the assessment tax in the year 2012, and the assessment was not done time to time.

Comments of the Sabha

The officers have been given training for assessing the assessment tax and arrangements are being made to carry out the assessment tax assessment as soon as possible.

Recommendation

Assessment tax assessment should be done time to time.

(b) There were 885 assessable units whose owners were not specifically identified within the Pradeshiya sabha area of authority and no measures were taken to identify the owners and collect the arrears.

It is expected to recover the arrears of assessment soon.

Arrangements should be made to collect the assessment tax in arrears.

3.4 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) A machine that was provided to automatically print the applications required by the customers coming to the Sabha remained idle without being used for the relevant purposes since the date of delivery and also the information such as the date, institution, value etc. of the machine was not provided to the audit.	Necessary arrangements are being made to put this machine into use.	The assets belongs to the Sabha should be utilized with maximum efficiency.
(b) A dining table worth Rs.28,000 was purchased for the “Wishrama Shala” rest hall of the Kataragama Pradeshiya Sabha on February 27, 2019 and 10(Blue tech) plastic water tanks with 2000 litre capacity which were donated to the Pradeshiya Sabha on January 01, 2021 has been missing by June 08, 2022.	In the committee appointed regarding the shortage of goods, these deficiencies will also be considered, so it is expected to act according to the committee's report.	The responsible parties should be identified and the damages should be recovered.
(c) According to the field investigation conducted by the Sabha in November 2021, the value of 08 Cemetery, 11 community halls, 02 lands and 23 buildings that were identified as belonging to the Pradeshiya sabha had not been assessed and accounted for.	These assets will be assessed and accounted for as soon as possible	The value of land and buildings owned by the Sabha should be assessed and accounted for.

3.5 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
(a) As on December 31 of the year under review, 18 vacancies were unfilled as per the approved staff for 12 posts in the Sabha.	New recruitment has been suspended as a matter of government policy.	Arrangements should be made to fill the employee vacancies.
(b) Arrears of Rs.40,382 and surcharge of Rs.20,191 had to be paid on account of non-payment of employees' provident funds for the period from April 1995 to December 2000.	As 23 years have passed since this period, the relevant information and responsible officers cannot be identified. Due to court action, payment had to be made.	Reduction from salaries should be adjusted on time and remitted to the relevant institutions.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

Although an internal audit officer has been appointed for the internal audit work of the Pradeshiya Sabha, the internal audit reports for the year 2022 have not been submitted.

Comments of the Sabha

Although an internal audit officer was appointed, he had to be assigned to other duties due to staff shortages. It is expected to correct this situation in the future.

Recommendation

An officer should be appointed for the internal audit work of the Sabha and relevant work should get performed by him efficiently.

4.2 Audit committee

Audit Observation

In accordance with Section 41(1) of the National Audit Act No. 19 of 2018 and Internal Audit Guidelines Circular No. DMA/01-2019 of the Department of Management Audit dated January 12, 2019, no Audit and Management Committees were held for the year under review.

Comments of the Sabha

I participated in the audit and management committees held in the local government bodies, and it is expected to conduct audit committees this year according to the circular of the management audit department.

Recommendation

The National Audit Act and other circulars should be followed.

4.3 Budgetary Control

Audit Observation

As there are significant variations between the estimated income and the actual income of the year from 11 percent to 100 percent, and between the estimated expenditure and the actual expenditure of the year from 17 percent to 96 percent in the budget prepared for the year by the Pradeshiya Sabha; the budget was not used as an effective control instrument in controlling the income and expenditure.

Comments of the Sabha

It could not be implemented as planned due to the Covid epidemic situation prevailed in the country, economic difficulties, and lack of fuel so on.

Recommendation

A proper budget should be prepared and the goals specified in it should be met.