

Katana Pradeshiya Sabha – 2022

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Katana Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, 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 report to parliament appear in this report.

I do not express an opinion on the financial statements of the Pradeshiya Sabha. Because of the significance of the matters described in paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2. Basis for Disclaimer of Opinion

I expressed Disclaimer of opinion regarding financial statements on the matters described in paragraph 1.6 of this report.

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 for the Local Authorities, 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 responsibility is to conduct an audit of the Pradeshiya Sabha's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
(a) According to standard 2.5, although the accounts were kept on the accrual basis of income such as rent and rates, it was stated in the accounting policies that the accounts would keep on the cash basis of income by council.	That the preparation of the accounts for the year 2023 will be done correctly.	Must act according to standards.
(b) Contrary to paragraph 3.20.(b) and rule 265 of the rules on accounting affairs related to the financial administration of the local councils No. 15 of 1987, Rs. 2,455,012 to be paid under the development loan of the council in the year 2023 was stated under non-current liabilities.	-do-	-do-
(c) Contrary to paragraph 3.78 (c) of the standard, the value of seven-day deposits of Rs.160,000,000 held by the council was stated under non-current investments.	-do-	-do-
(d) As per EG 3.1 of the Detailed Explanations for Sri Lanka Public Sector Accounting Standards for Local Governments in Appendix 2 of the standard, if any capital works are to be shown as a separate item in the property, plant and equipment register, Rs.4,500,000 and Rs.55,803,215 worth of work in progress in the year under review was capitalized as land and buildings by the council.	-do-	-do-

1.6.2 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Amounted to Rs.459,374 received on 30 December 2020 had not been credited to the debtor's account.	Acceptance. That correction will be made through a 2023 journal entry.	Arrangements should be made to prepare the accounts correctly.
(b)	Grants due to the council amounting to Rs.32,498,936 were shown in the financial statements as receivables but were not shown in note 10.	That the account will be corrected.	-do-
(c)	The council had capitalized Rs.3,405,093 incurred during the year under review for the repair of culverts and drains.	That will be corrected at the end of the financial year	-do-
(d)	Although the interest income for the fixed deposit of the council was Rs.28,076,102, it was shown as Rs.27,340,592 understated by Rs. 735,510.	That the accounts are correctly accounted in preparing the 2023 accounts.	-do-
(e)	Creditor's over provision of Rs.886,812 related to 13 projects that had been completed and paid for was included in the creditors' balance.	That in accordance with Committee Decision No. 354, it has been removed from the register.	-do-

1.6.3 Unreconciled Control Accounts or Records

	Audit Observation	Comments of the Council	Recommendation
	According to the financial statements and schedules submitted with the financial statements of the year under review, there was an unreconciled difference of Rs.105,169,789 in 10 account balances.	That the correction will be made during the preparation of the account in the future year.	The reasons for the change should be found and corrected.

1.6.4 Documentary Evidences not made available for Audit

	Audit Observation	Comments of the Council	Recommendation
	04 account balances worth Rs.34,434,002 as at 31 December of the year under review could not be satisfactorily verified in the audit due to non-submission of documents, schedules and journal entries.	That will be corrected in the future.	Relevant evidence should be submitted for audit.

1.7 Non- Compliances

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

Instances of non-compliance with laws, rules, regulations and management decisions are mentioned below.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.371	The advance balance of Rs. 119,957 related to 07 cases, which existed for more than 10 years, was not settled.	That there is a problem in finding the relevant documents.	Arrangements should be made to settle the balances.
	F.R.571	Deposits of Rs.3,242,046 for the past 2 years were not regulated.	Informed by letters that they will take deposit income beyond 02 years.	Proceed as per reference regulation.
(b)	Local Government Commissioner's circular LGD/09/2019(I) dated 24 August 2020	The Council had not taken steps to approve the advance B account limits of provincial government officials.	That the recommendation will be referred to the Finance and Administration Committee and a decision will be taken.	Proceed as per the referred circular.
(c)	Western Provincial Local Government Commissioner's Circular No. LGD/10A/4/20.8 2019 dated 12 February 2021	Although it was stated that non-financial assets should be revalue under 14 classifications, the council had not revalue roads and culverts.	No answers provided	Proceed as per the referred circular.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the council for the year ended 31 December 2022 amounted to Rs.102,456,438 as compared with the excess of revenue over expenditure amounted to Rs. 167,365,734 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 Secretary, information 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 December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
	000'	000'	000'	000'	000'	000'	000'	000'
i Rates and Taxes	39,191	55,863	52,960	34,351	38,557	33,153	25,449	33,448
ii Rent	4,084	1,143	1,138	179	2,288	778	725	174
iii License Fees	2,703	1,689	1,689	-	2,703	1,163	1,163	-
iv Other revenue	346,038	396,203	396,203	-	298,473	298,473	298,473	-
	<u>392,016</u>	<u>454,898</u>	<u>451,990</u>	<u>34,530</u>	<u>342,021</u>	<u>333,567</u>	<u>325,810</u>	<u>33,622</u>

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Rs.8,124,993 related to 19 occasions in the industrial creditor balance of Rs.177,878,989 at the end of the year under review, had not been settled for more than 05 years.	Acceptance.	Evidence should be submitted to the audit to verify the balances, and arrangements should be made to settle or write off the balances.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) There were no deeds related to 09 lands held by the council and no measures were taken to assess and account for the values of those lands.	Formal deeds will be prepared for properties without title deeds, and the title will be verified in the future.	Deeds should be prepared to identify the sizes of the lands and to assess the values and to do the accounting.
(b) The council had not taken steps to evict the squatters occupying the Adiambalama Walpolawatta land and the Welihena Davatagahawatta land and transfer the land to the council.	That the forward course of action is directed.	The squatters should be removed and the land handed over to the council.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
Maintenance of records relating to property, plant and equipment as per Forms LG/23/1, LG/23/2, LG/23/3, LG23/4, and LG23/5 as in the Circular no. LGD/09/2019(I) dated 24 August 2020 had not done.	That asset registration has been initiated as per circular forms.	Documents should be maintained as per the format included in the circular.

3.4 Procurement Management

Audit Observation	Comments of the Council	Recommendation
The council had spent Rs. 8,149,344 for the purchase of electrical materials for the year 2022. According to 7.11.1 of the procurement guidelines, no bid evaluation report was prepared by the Technical Evaluation Committee during the evaluation of the bids.	That 7.11.1 has not been acted upon and that the evaluation activities have been carried out to fulfil the objectives of 1.2.1.	The guidelines should be followed.