

Katuwana Pradeshiya Sabha – 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katuwana Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial operations, statement of changes in net assets, Cash Flow Statement for the year and notes to the financial statements including material accounting policy information 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 provisions of the National Audit Act No. 19 of 2018, sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Katuwana Pradeshiya Sabha as at 31 December 2023, 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 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 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 Accounting Deficiencies

Audit observations	Comments of the Council	Recommendation
(a) The cost of a shop and a tube well which had been completed of construction in Kirama town were Rs.1,075,750 and Rs.991,300 respectively, had not been capitalized.	The cost of spent for shop will be corrected by journal entries and that no equipment or fixed asset is included in the cost of constructing the tube well.	Assets must be properly accounted.
(b) Due to non-contract agreement with Ceylon Electricity Board for previous years, Rs.671,880 which cannot be reimbursed was accounted as a receivable balance.	After receiving the Governor's approval, through a journal entry will be removed from final accounts.	Accounts receivable must be accurately identified and accounted.
(c) Less creditor provision of Rs.163,375 had been allocated aside for supply creditors.	It will be corrected by through a journal entry in future	Creditor provisions must be accurately identified and accounted.
(d) Since the total income of the mobile fish shop which was leased for 03 years from August of the year 2022 till August 2025 of Rs.130,539 accounted as income for the year under review, therefore the income for the year had been over - stated by Rs.86,859.	It will be corrected by through a journal entry in future	Revenues should be recognized and accounted for correctly.

1.6.2 Unreconciled Control Accounts

Audit observations	Comments of the Council	Recommendation
There was a difference of Rs.591,980 in between the balances related to 05 accounting subject included in the financial statements and the balances shown in the related document /schedules.	Observations are accepted	The account should be corrected by comparing the differences in the respective balances.

1.7 Non- Compliances

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

	Reference to Laws, Rules Regulations etc.	Non – Compliance	Comment of the Council	Recommendation
(a)	Paragraph 04 of the Local Government Commissioner's (Southern Province) Circular No. Dapapa/Papako/2010/01 dated 27 December 2010	Although the amount of key money should be collected on the date of lease of the shops or subject to a maximum of 6 times within 06 months, the amount of Rs.9,534,333 due from 10 leased shops in the years 2017 and 2022 had not been recovered.	Rs.49,000 has been recovered and letters have been sent to the Chief Ministry Secretary to requesting an advice for recovering the remaining arrears and further work will be done based on the advice received.	Action should be taken according to the provisions of the Local Government Commissioner's circular.
(b)	Paragraph 02 (c) (viii) of No. 01/2023 dated January 27, 2023 the Budget Circular.	Although credit facilities should not be provided to executive staff officers, distress loans of Rs.187,500 had been given to the Secretary of the council in the year under review.	That the rest of the distress loan amount was given on the request of the council secretary.	Action should be done as per the provisions of the budget circular.

2. Financial Review

2.1 Financial Result

According to the presented financial statements, the income exceeding the recurrent expenditure of the council for the year ending December 31 of the year under review was Rs.19,360,919 . Correspondingly, the income exceeding the recurring expenditure of the previous year was Rs.4,814,836 .

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Source of Revenue	2023				2022			
	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)
Assessments and taxes	1,709,250	1,573,980	1,580,510	4,030	1,265,150	1,583,055	1,592,385	10,560
rent	17,865,200	14,760,888	14,931,798	1,929,988	15,736,200	14,201,599	13,977,834	2,100,898
License fees	1,524,150	2,224,937	2,346,137	100,300	1,461,350	2,278,420	2,531,220	221,500

Other income	37,304,780	43,882,269	41,702,007	15,496,017	25,379,060	28,595,523	25,914,250	13,315,755
Total	58,403,380	62,442,074	60,560,452	17,530,335	43,841,760	46,658,597	44,015,689	15,648,713

2.2.2 Performance in Revenue Collection

	Audit observations	Comments of the Council	Recommendation
(a)	In accordance with sections 159(1) of the Pradeshiya Sabha Act, action had not been taken to recovered Rs.981,285 of receivable rent due from 26 shops.	Rs.165,900 have been recovered and the rest of the arrears will be collected.	Arrears of income should be collected as soon as possible.
(b)	The council had not taken actions to recovered Rs.770,040 as rent from vehicle rental , Rs.98,124 from 03 tender properties and Rs.80,539 as rent from mobile fish shop .	It is said that running charts will be checked to find out the arrears of rent for vehicles that cannot be confirmed , and a lawsuit has been filed to recover Rs. 90,750 from tenders and to cut off the remaining Rs. 7,374. That letters were sent to the governor.	Arrears of income should be collected as soon as possible.
(c)	According to the Gazette Notice No.2312 dated 25 th November 2022, to be billed fees charged from a permanent billboard Rs. 118,940 had been billed in less.	From the amount to be charged, Rs.8,000 have been charged and that the council has been informed to institutions for recover the remaining amount.	Arrears of income should be collected as soon as possible.
(d)	The income lost to the council fund was Rs.77,580 , due to the fact that 06 billboards displayed in island wide of year 2023 had not been identified and included in the survey report.	That the management of related institutions has been informed about the recovery of income.	Arrears of income should be collected as soon as possible.
(e)	The amount of Rs. 14,752,327 to be received for water charges had not been recovered.	Rs.7,810,570 have been recovered and the work of disconnecting the water connections is currently being carried out to recover the rest of the money.	Arrears of income should be collected as soon as possible.

- (f) The Court fines and stamp duty due from the Chief Secretary of the Provincial Council were Rs.2,043,662 and Rs.20,593,650 respectively. Rs.1,646,332 of court fines and Rs.6,758,668 of stamp duty have been received. Arrangements should be made to collect the arrears.

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 3 of the Pradeshiya Sabha Act are shown below.

3.1 Assets Management

	Audit observations	Comments of the Council	Recommendation
(a)	During the physical verification of street lights, there was a shortage of 22 units of 200W flasher lights valued at Rs.142,780. This deficiency was caused although 22 lights were issued to 11 members from August to November 2018, but they were not handing those back to the council. And in the physical verification report of the year 2022, the physical verification board officials had acted irresponsibly in balancing this lights 56 according to the ledger and the actual balance.	That one public representative has handed over 02 flashers and 27 inactive flashers have been auctioned as per the 2023 physical verification recommendations .	Physical verification board officials should act responsibly.
(b)	The council had not taken over the legal rights of 16 lands and buildings owed by the council.	That the necessary further actions to hand over the land will be carried out promptly	Arrangements should be made to take over the legal rights of the assets.

3.2 Delays in Project Activities or Capital work

	Audit observations	Comments of the Council	Recommendation
	The 03 development proposals with a total value of Rs. 1,163,063, which had been allocated to be implemented in the year 2023 by the annual budget document, were not implemented during the year.	That the contractors have informed that it is difficult to fulfill the contract at the estimated cost.	Development proposals for which provision has been made in the budget should be implemented.

3.3 Procurement Management

Audit observations	Comments of the Council	Recommendation
(a) According to Section 5.6.1(a) of the Government Procurement Guidelines 2006, the specifications for the goods or works to be procured shall not be narrower than necessary to achieve the relevant procurement objectives, but in the case of purchases with an aggregate value of Rs.1,451,800 it had not been done that way.	That procurement activities are currently being conducted in accordance with the Code of Procurement Guidelines.	Procurement should be done as per the provisions of the Government Procurement Guidelines Code.
(b) The 02 air conditioners with a total value of Rs.604,998 were purchased for the council and in the related technical evaluation committee report, only the reasonable price specification was taken into consideration and the technical evaluation committee did not act according to section 2.6 (a) (ii) of the procurement guidelines in giving recommendations without considering the important specifications such as warranty period, type, country of manufacture.	That 02 air conditioners were properly installed and payments were made on the recommendations of the Technical Evaluation Committee.	Procurement should be done as per the provisions of the Government Procurement Guidelines Code.
(c) According to section 2.8.1 (a) of the procurement guidelines, a member should not be a member of both the procurement committee and the technical evaluation committee, without doing so , a member of the technical evaluation committee appointed in relation to two purchases with a total value of Rs.1,952,498 had been deal with also as member of the procurement committee.	That a member unrelated to the procurement committee has been appointed for the technical evaluation committee.	Procurement should be done as per the provisions of the Government Procurement Guidelines Code.

3.4 Defects in Contract Administration

Audit observations	Comments of the Council	Recommendation
(a) In relation to concrete the roads related to 04 road development projects, an extra payment of Rs.342,485 had been made due to the use of another rate instead of using the ST-047 rate in the road price document to be used.	The use of ST-048 rate increases the durability of roads.	That payment should be made using the rate to be used for road construction and payment cannot be made using any other rate.

- (b) In relation to 04 road concreting projects, although Rs. 3,502,703 had been paid for the subject of concreting, with showing that road were concreted to a thickness of 06 inches, but in here the entire amount was paid without confirming through an inspection report that 06 inches have been concreted to thickness of 06 inches.
- That the construction was done under the full supervision of technical service officers.
- The thickness of the roads should be verified through an inspection report and payment should be made.

3.5 Human Resources Management

Audit observations

By the end of the year under review, 33 excess related to 09 positions had not been formalized, since the approved carder and actual working staff of the council were 96 and 111 respectively.

Comments of the Council

That 15 development officers are excess, and requests are made to include these positions in the approved staff.

Recommendation

Action should be made to formalize staff redundancies.

3.6 Solid Waste Management

Audit observations

According to the condition number 03 of the environmental protection licence, plastic, polythene, paper, glass and iron in the solid waste should be separated and sent to the relevant institutions for recycling. Further although it should be properly stored in a suitable place so that it is not blown away by the wind and exposed to rain water, the council had not done so.

Comments of the Council

This situation is due to the lack of storage facilities, and that will work to provide storage facilities in the future.

Recommendation

Action should be followed as the conditions of the license.