

## **1. Financial Statements**

### **1.1 Adverse Opinion**

The audit of the financial statements of the Katana Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of assets and liabilities as at 31 December 2023, 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.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Katana Pradeshiya Sabha as at 31 December 2023 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

### **1.2 Basis for Adverse Opinion**

I expressed Adverse opinion regarding financial statements 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 adverse 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 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 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 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

- 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.
- 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 regarding the preparation of Financial Statements

### 1.6.1 Non-compliance with the Sri Lankan Public Sector Accounting Standard for Local Authorities

Non-compliance with reference to relevant standard	Comments of the Sabha	Recommendation
(a) As per explanations of the number 3.28 of the standard and of the Appendix 2 and EG 6.2 of the guidelines, in calculating the cash flow from operating activities, the surplus for the year had been understated by Rs.112,889,567 and non-cash transactions had not been adjusted. Also, the capital expenditure allowance of Rs.12,711,909 identified in the comprehensive income statement had been adjusted to Rs.3,249,894 and the increase in receivables should have been Rs.27,743,931 but there was a decrease of Rs.38,564.	Observation is accepted	Cash flow statement should be prepared in accordance with the standard.
(b) As per explanations of the number 3.29 of the standard and of the Appendix 2 and EG 6.3 of the guidelines, while calculating the cash flow from investment activities, instead of showing the cash investment in fixed deposits as Rs.321,000,000 and the withdrawal of fixed deposits as Rs.310,550,000, Rs.264,396,159 has been shown as an inflow of investment. Furthermore, instead of Rs. 61,550,705 which had been spent for the purchase of property and equipment, Rs. 62,027,333 has been shown as an inflow.	- Do -	- Do -

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| (c) | As per explanations of the number 3.30 of the standard and of the Appendix 2 and EG 6.4 of the guidelines, while calculating the cash flow from financial activities, the amount of Rs.9,449,572 received and the financial cost of Rs.1,901,588 had not been shown. | Observation is accepted | Cash flow statement should be prepared in accordance with the standard. |
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## 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The value of the Mahahunupitiya Daminnagahawatta land, which was valued at Rs.21,750,000, had been accounted for twice.	Observation is accepted	Arrangements should be made to prepare the accounts correctly.
(b) According to the revaluation done in the year 2022, the value of 18 roads of Rs.28,750,000 was accounted under land, but the related depreciation of Rs.2,875,000 had not been accounted for the year under review.	- Do -	- Do -
(c) According to the revaluation done in the year 2022, the value of 05 water projects of Rs.27,417,500 was accounted under land, but the related depreciation of Rs.685,438 had not been not accounted for the year under review.	- Do -	- Do -
(d) The building values of Muthuwadiya shop room and Vattewa crematorium were Rs.141,208 and Rs.490,000 respectively had not been accounted for.	- Do -	- Do -
(e) Out of Rs.996,142 tax on land sale, Rs.633,842 had not been taken as income and accounted as general deposit.	- Do -	- Do -
(f) Depreciation of Rs.23,440,709 for 12 items of property, plant and equipment in the year under review had been credited to property, plant and equipment assets instead of being credited to the depreciation allocation account.	- Do -	- Do -
(g) Rs.552,084 related to 2 project cases had been capitalized instead of being accounted for as repair expenses.	- Do -	- Do -

(h) The construction of Puraneguma Auditorium, which was started in the year 2018, was not completed by 06 May 2024, and Rs. 97,596,694 spent up to 31 December 2023 had been capitalized as buildings instead of being shown as work in progress, Rs. 2,035,000 had been depreciated for the year under review.	Observation is accepted	Arrangements should be made to prepare the accounts correctly
(i) During the year under review, the capital grants received in cash amounting to Rs.12,711,909 by the Sabha had been recognized as transfers from the government for non-recurring expenditure in the statement of comprehensive income of the year under review as income for the year.	- Do -	- Do -
(j) During the year under review, Rs.815,388 which was the net loss on disposal of property and equipment of Rs.820,988 should have been adjusted in the comprehensive income statement of the year under review, but only the income from sale of Rs.5,600 had been shown.	- Do -	- Do -
(k) In the balance of various creditors as at the end of the year under review, a balance of Rs. 3,469,251 remained after settlement of the related expenses, as the over allocations were not settled, the creditor balance is shown higher.	- Do -	- Do -
(l) In the sale of parcels of land in the year 2023, the deeded value of Rs.100,000 which was received without considering the minimum selling price of one perch of common facility lands of 3 Rood 2.66 Perches, 22.43 Perches and 3 Rood 12.8 Perches had been accounted as the values of the lands. Accordingly, considering the minimum selling price of one perches, the value of those lands should be Rs. 37,411,300, Rs. 6,729,000 and Rs. 19,521,600 respectively, so the value of those lands is underestimated by Rs. 37,311,300, Rs. 6,629,000 and Rs. 19,421,600 respectively, The land value has been understated by Rs.63,361,900.	- Do -	- Do -

### 1.6.3 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
There were unreconciled amounting to Rs.34,253,956 between the balances of 5 accounts in the financial statements and the totals in the schedules submitted with the financial statements of the year under review.	Observation is accepted	The reasons for the change should be found and corrected.

#### 1.6.4 Absence of Written Evidence for Audit

	Subject	Amount Rs.	Audit evidence not provided	Comments of the Sabha	Recommendation
(a)	Prepaid	81,392	The party who gave the advance and time	Observation is accepted	Relevant evidence should be submitted for audit.
(b)	Unreconciled Balance - Stocks	207,906	Schedules and time analysis	- Do -	- Do -
(c)	Loss due to theft	13,698	Schedules	- Do -	- Do -
(d)	Capital grant expenditure	3,249,894	- Do -	- Do -	- Do -
(e)	Account books	18,340,030	Journal entries	- Do -	- Do -

#### 1.7 Non-compliance

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

Below are the cases where laws, rules, regulations and management decisions were not complied with.

	Reference to laws, rules, regulations etc	Non-compliance	Comments of the Sabha	Recommendation
(a)	Section 38(2) of Chapter VII of the National Audit Act No. 19 of 2018	A copy of the written review to be performed by the Chief Accounts Officer was not submitted to the Auditor General that an effective internal control system is maintained for financial control and that the previous review of the effectiveness of that system has been carried out and necessary changes have been made accordingly to continue the system efficiently.	Observation is accepted	The reference rule should be followed..
(b)	398 Rules on accounting matters relating to pradeshiya sabha financial administration	Although the value certified by a government or private chartered valuer should be used to determine the minimum bid value in case of lease of immovable property, the last time an assessment report had not been obtained and had not been submitted to the audit and the minimum bid value was determined to be the tender amount of the year 2021 for 5 meat and fish shops, with a 10 percent increase to the tender amount of the year 2021 for Satipola.	- Do -	- Do -

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| (c) | Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka. | Overdue deposits of Rs. 7,316,231 over two years had not been regulated..   | - Do -                  | - Do -                                 |
| (d) | Local Government Circular No. LGD/09/2019(1) dated 24 August 2020           | As shown in form LG.21/2, the limits of the provincial government officials' advance "B" account should have been approved, but the council had not proceeded to approve the advance account limits | Observation is accepted | The reference rule should be followed. |
| (e) | 2.4 of Public Finance Circular No. 01/2021 dated 29 September 2021          | In the year 2023, more than 3 contracts are engaged in two civil society organizations, 05 contracts worth Rs. 9,321,647 had been awarded exceeding the limit of 06 contracts.                      | Observation is accepted | - Do -                                 |

## 2. Financial Review

### 2.1 Financial Results

According to the presented financial statements, the income exceeding the expenditure of the sabha for the year ending 31 December 2023 was Rs. 122,351,582 and correspondingly the income exceeding the expenditure of the preceding year was Rs. 102,456,438.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

According to the information presented by the secretary, the following is the information about estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year.

Source of income	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total deficit as on 31st December	Estimated Revenue	Billed Revenue	Collected Revenue	Total deficit as on 31st December
	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'
Assessment taxes and taxes	42,901	75,610	77,501	32,459	39,191	55,863	52,960	34,351
Rental	3,531	794	764	209	4,084	1,143	1,138	179
License fees	2,472	3,046	3,046	-	2,703	1,689	1,689	-
Other income	181,974	263,867	263,867	-	346,038	396,203	396,203	-
	230,878	343,317	345,178	32,668	392,016	454,898	451,990	34,530

## 2.2.2 Revenue Collection Performance

Audit Observation	Comments of the Sabha	Recommendation
In the previous year and the reviewed year, the estimated income of Rs.39,191,000 and Rs.42,901,000 for assessment and tax respectively and the billed income of 55,863,000 and 75,610,000 respectively, the estimation of income for assessment and tax was not realistic.	Observation is accepted.	Estimates should be prepared realistically.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) As on the last day of the year under review, the industrial creditor balance was Rs.177,290,307 and out of that Rs.1,515,527 were balances of more than three years old.	Observation is accepted.	Actions should be made to recover efficiently.
(b) According to Gazette Notice No. 2264/18 dated 27 January 2022, the sabha had not conducted a survey for the year 2023 to identify the institutions that should be given environmental permits.	- Do -	Arrangements should be made to conduct the relevant survey.

- (c) Demanhandiya and Andiambalam 2 sub-offices had not been maintained the relevant documents to record the income received from the hotels of the tourism board, as to whether the income received is correctly assessed and charged, and since there was no copy of the accounting reports or copies of the relevant receipts of the respective hotels, the Rs. 417,269 received for the year 2023. were also not satisfied with the income.
- Do -                      The relevant documents should be maintained.

### 3.2 Operational inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) It was revealed that the interim lessees are using the 3 shop rooms of B/ Katana Kabellagas junction without obtaining prior written permission and it was also revealed that the lease is being received from the interim lessee in the name of a deceased lessee.	Observation is accepted.	Written permission must be obtained for interim leases.
(b) There was no agreement with the lessees in relation to the 3 shop rooms located at Raddoluwa Muthuwadiya junction where the files had not been maintained, and the sabha had not taken any action regarding the grant of interim lease even though the registered lessee and the people who are currently running the business have changed in relation to 2 shop rooms.	Observation is accepted.	Relevant contracts and files should be maintained.
(c) A register and separate files had not been maintained for the lease of 7 shop rooms on the upper floor and ground floor of the multi-purpose building to Udhammita and the measures had not been taken by the sabha to collect rent arrears of Rs. 215,100 as of 31 December 2023 to submit to the audit in relation to 6 shops.	the remaining balance will be recovered	The relevant documents and files should be maintained and arrangements should be made to collect the arrears of rent.

### 3.3 Procurement Management

Audit Observation	Comments of the Sabha	Recommendation
According to the 2006 Government Procurement Guidelines Code, a procurement plan was not prepared for works and although a procurement plan was prepared only for purchases, that plan was not a procurement plan prepared according to Guideline 4.2.1 of the 2006 Government Procurement Guidelines Code.	Observation is accepted.	Procurement guidelines should be followed.

### 3.4 Deficiencies in Contract Administration

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
4 projects with a total of Rs 5,500,000 which had been allocated under the provincial development grants and which were set to be carried out under community Development Organizations had been completed by the registered contractors.	Observation is accepted.	Actions should be taken on the advice of the funding agency.

### 3.5 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
The amount of Rs.699,440 receivable from 6 officers who left the service from the year 2018 to 2022 had not been collected by 31 December of the year under review.	That the actions will be done to recover.	Arrears should be collected..

## 4. Accountability and Good Governance

### 4.1 Audit Committee

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
As per Audit and Management Circular No. DMA/2009(1)(I) dated 28 January 2016, the Council had held only 2 Audit and Management Committee meetings for the year under review.	Observation is accepted	Actions should be done as per circular instructions.