

## **Katharagama Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the KatharagamaPradeshiyaSabha including the financial statements for the year ended 31<sup>st</sup> December 2021 comprising the Statement of financial position as at 31<sup>st</sup> December 2021, 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 PradeshiyaSabha Act No.15 of 1987and 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 financial statements give a true and fair view of the financial position of the KatharagamaPradeshiyaSabha as at 31<sup>st</sup>December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally AcceptedAccounting Practices.

#### **1.2 Basis for QualifiedOpinion**

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I expressed qualifiedopinion 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 FinancialStatements 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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted AccountingPractices, 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 PradeshiyaSabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the PradeshiyaSabha 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)

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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 PradeshiyaSabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the PradeshiyaSabhahas complied with applicable written law, or other general or special directions issued by the governing body of the PradeshiyaSabha;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the PradeshiyaSabha 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

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National Audit Act, No.19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshhiya 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.

## 1.5 Audit Observations on the preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comments of the sabha	Recommendation
(a) Since, An amount of Rs.377,773 incurred for the development of the Thisara Early Childhood Development Centre building which does not belong to the council had been accounted for as an asset ,the value of land and buildings was overstated by that amount.	It has been informed that it will be corrected by journal entries.	Assets belonging to the council should be properly identified and accounted for.
(b) Since, Industrial Creditors of Rs.1,571,369 and industrial debtors of Rs. 148,187 had been over accounted for as at 31 <sup>st</sup> December of the year under review, The capital grants and capital expenditure had been overstated by those amounts.	It had been Informed that correction will be made by journal entries.	Income in arrears should be properly identified and accounted for.
(c) Since, Billboard charges receivable of Rs.1,185,500 had been under-accounted for, the operating surplus and receivables were understated by that amount.		
(d) Membership allowances dues for the month of December of the year under review Rs.255,000 had been incorrectly accounted for as industrial aid receivable.		

## 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<sup>st</sup>December 2021 amounted to Rs.12,580,071 as compared with the excess of revenue over recurrent expenditure amounted to Rs.9,038,201 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the sabha	Recommendation
(a) In relation to 9 vehicle parks belonging to the council, Rs. 5,396,703 due for the year under review and Rs. 15,967,112 due for the previous year had not been recovered.	It has been informed that the documents have been prepared for tax recovery and further action will be taken accordingly.	Income in arrears should be recovered.
(b) In respect of 101 stalls, shop rent of Rs. 4,396,831 due for the year under review and Rs. 4,918,704 due for previous years had not been recovered.	It has been informed that since the parties to be charged have been identified, steps will be taken to recover the arrears.	Income in arrears should be recovered.
(c) Billboard charges of Rs.1,185,500 due in respect of 32 billboards for the year under review had not been recovered.	It has been informed that the relevant parties have been informed and accordingly, recovery will be done in the future.	Income in arrears should be recovered.

## 3. Operational Review

### Performance

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 03 of the Pradeshiya Sabha Act are shown below.

## Management Inefficiencies

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### Audit Observation

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Although traveling expenses and Subsistence allowances may be regularly paid to such officers to meet the additional expenses incurred in going on field inspections, from the year 2012 to July 2020, a special allowance of Rs.603,993 was paid to 12 officials who carried out the relevant field inspections without formal approval, so as to be 50 percent of the environmental protection license inspection fees charged by the sabha.

### Comments of the sabha

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It has been informed that after receiving the instructions of the Local Government Commissioner, formal actions will be taken.

### Recommendation

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A formal approval must be obtained for the payment of special allowances.