

Katuwana Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katuwana Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Sub-section 172 (1) of the Pradeshiya Sabhas 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Katuwana Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Principles, 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Pradeshiya Sabha 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.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented 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 -----	Comment of the Sabha -----	Recommendation -----
(a) Receivable Stamp Duty of Rs2,347,668 had been understated in the Financial Statements at the end of the year under review.	The documents sent by the Registrar General had been accounted and it had been different from the documents of the Provincial Department of Revenue therefore a shortage had been arisen.	The revenue should be accurately stated.
(b) 10 per cent Retention payable for 03 projects of Rs.242,800 had been stated under the Industrial Creditors and also 10 per cent industrial retentions therefore the current liabilities for the preceding year had been overstated by Rs.242,800.	Actions would be taken to settle this by Journal Entries.	The responsibilities should be stated accurately.
(c) Capital Expenditure of Rs.174,270 had been stated as recurrent expenditure for the year under review.	Expenditure of Rs.102,500 would be settled in the next year and the Capital Assets purchased by the voucher No.158, 209 and 229 had been stated as the recurrent expenditure.	The Capital Expenditure should be accurately stated.

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| (d) | The Furniture and Office Equipment purchased during the year under review of Rs.89,370 had been stated under the Machinery and Equipment. | Actions would be taken to settle this by Journal Entries. | The Assets should be categorized accurately and stated. |
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1.6.2 Non-reconciled Control Accounts

Audit Observation

There had been a difference of Rs.8,957,942 relevant for an item of account, between the balances as per the financial statements of Rs.27,409,649 and the balances as per the corresponding reports.

Comment of the Sabha

Actions would be taken to settle the balance in the future.

Recommendation

The differences of the relevant balances should be reconciled and corrected.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation

The necessary information had not been furnished regarding an item of account accumulated to Rs.8,000,462 for the audit.

Comment of the Sabha

A register had been prepared for the arrears above Rs.10,000 and the details about other arrears had been entered in the Computer.

Recommendation

The Evidence should be furnished to prove the balances declared in the Financial Statements.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.9,451,482 for the year ended on 31 December of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.11,709,899.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation

- (a.) Other Tax
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- Actions had not been taken to recover the Acreage tax receivable of Rs.4,000.

Comment of the Sabha

Actions would be taken to recover the arrears acreage tax in the future.

Recommendation

The receivable revenue should be recovered as soon as possible.

(b.)	Rent -----		
	i. Actions had not been taken to recover receivable Stall Rent of Rs.253,826.	Actions would be taken to recover the rest of the amount.	The receivable revenue should be recovered as soon as possible.
	ii. Actions had not been taken to recover receivable Vehicle rent of Rs.1,380,407.	Permission had been requested from the Governor to write-off a balance of Rs.515,436 that had been spent for the public matters of the Sabha and legal actions would be taken to recover the rest of the amount.	The receivable revenue should be recovered as soon as possible.
(c.)	License Fees -----		
	Actions had not been taken to recover the License Fees receivable of Rs.15,550.	Actions would be taken to write-off an amount of Rs.3,550 over billed and to recover the rest of the amount.	The receivable revenue should be recovered as soon as possible.
(d.)	Court fines and Stamp Duty -----		
	The Court fines and Stamp Duty had been receivable from the Chief Secretary of the Sabha and the other officers of Rs.4,720,524 and Rs.27,409,649 respectively.	Actions would be taken to recover the arrears.	The receivable revenue should be recovered as soon as possible.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Operational Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Action had not been taken under the Section 11 of the agreement signed with the consumers of water to recover the receivable water charges of Rs.5,941,213 for the year under review.	Actions would be taken to recover in the future.	The arrears should be recovered according to the agreement.