

Nuwaragam Palatha Central Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Nuwaragam Palatha Central Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in net assets / equity and cash flow statement for the year then ended, 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 Subsection 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 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 accompanying financial statements give a true and fair view of the financial position of the Nuwaragam Palatha Central Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Sri Lanka Public Sector Accounting Standard for 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 to identify and assess the risk 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's / Department's / District Secretariat's 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 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 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 on the Preparation of Financial Statements

1.6.1 Accounting deficiencies

Audit observation	Comments of the Council	Recommendation
(a) Even though the depreciation related to the year 2021 had been Rs.28,349 while eliminating the expenses of Rs.283,490 of the project of laying paving stones to Kokkichchiya road in Mankadawala, which had been accounted according to Journal Note 05 for the rectification of the errors in the previous year, it had been over credited to the accumulated fund as Rs.255,141.	Accepted.	The accurate value should be accounted.
(b) An amount of Rs.7,844,234 paid in the year under review for the building of Pandulagama Pre-School, which had been constructed under the Local Development Support Project (LDSP project), had been accounted under advances.	-Do-	-Do-

(c)	The reimbursement of member allowances amounting to Rs.5,160,000 included in the amount of Rs.25,525,586 which had been the reimbursement of employee salaries and allowances in the statement of comprehensive income, had not been disclosed separately.	-Do-	Reimbursement of employee allowances should be disclosed separately in the statement of comprehensive income.
(d)	Construction of 02 culverts amounting to Rs.390,208 included in the construction of gravel roads in the year under review had been accounted under recurrent expenditure grants.	-Do-	Fixed assets should be identified accurately.
(e)	A stock amounting to Rs.223,060 which had prevailed as at 31 December of the year under review had not been accounted.	-Do-	Remaining stocks should be accounted accurately.
(f)	Capital Expenditure Allowances amounting to Rs.3,213,899 that had been recognized in surplus/deficit in the year under review had been indicated by adding it in the cash flow statement.	-Do-	Cash inflows should be identified accurately.
(g)	The value of the water bowser amounting to Rs.14,000,000 received as donations from the Ministry of Provincial Councils and Local Government had been indicated as a receipt of cash in the cash flow statement.	-Do-	The accurate value should be accounted.

1.6.2 Unreconciled Control Accounts or Reports

Audit observation	Comments of the Council	Recommendation
(a) According to the comprehensive income statement, there was a difference of Rs.180,570 between the value of an item of revenue and an item of expenditure and the value according to the primary books.	Accepted.	Schedules should be reconciled with corresponding reports.

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| (b) | Even though the unidentified capital grant balance in the surplus/deficit as at 01 January 2022 had been Rs.43,706,376 it had been Rs.15,349,689 as per the statement of changes in net assets / equity, and as a result, there had been a difference of Rs.28,356,687. | -Do- | -Do- |
| (c) | Even though the accumulated surplus (deficit) as at 01 January 2022 had been Rs.213,987,018 it had been Rs.241,979,601 as per the statement of changes in net assets / equity, and as a result, there had been a difference of Rs.27,992,583 | -Do- | -Do- |

1.6.3 Documentary Evidence not made available for Audit

Audit observation	Comments of the Council	Recommendation
(a) As adequate evidence had not been submitted for fixed assets valued at Rs.133,706,251 and current assets, they could not be satisfactorily verified and vouched in the audit.	Accepted.	Confirmations should be submitted.
(b) Evidence to confirm as to what the value of Rs.1,254,702 indicated as adjustments for the year in the fund flow statement had not been submitted to audit.	-Do-	-Do-

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure, which exceeded the revenue of the Pradeshiya Sabha for the year ended 31 December 2022, had been Rs.5,616,894 and corresponding expenditure, which had exceeded the revenue in the previous year had been Rs.13,086,813.

2.2 Revenue Administration

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

Information about estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year is mentioned below.

Revenue Source	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	2,249,224	2,401,534	1,790,450	715,084	2,918,210	2,208,179	2,189,979	104,000
(ii) Rents	7,550,236	6,476,026	6,385,414	1,557,809	6,677,434	5,952,398	6,755,873	1,461,207
(iii) License Charges	6,156,600	6,144,636	5,912,336	2,045,550	4,854,050	6,840,705	5,027,455	1,813,250
(iv) Other Revenue	30,974,200	17,284,759	11,186,184	25,943,938	26,449,000	13,334,075	9,523,513	19,845,363
	46,930,260	32,306,955	25,274,384	30,262,381	40,898,694	28,335,357	23,496,820	23,223,820

2.2.2 Performance in the Collection of Revenue

The observations in relation to the performance of the collection of revenue in the Pradeshiya Sabha are mentioned below.

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) Rates and Taxes		
(i) Even though the developed areas of the jurisdiction of the Pradeshiya Sabha had been identified and published in Gazette No. 2243 on 27 August 2021, the Council had not taken steps to charge rates.	Letter for property survey activities has been sent on 21 April 2023.	Action should be expedited.
(ii) Action had not been taken to collect the arrears of garbage tax amounting to Rs.1,868,650 that should be collected as at 31 December of the year under review.	Currently, 232 tax payers with arrears have been identified and I am taking action to recover the arrears.	Recovery should be expedited.
(iii) Action had not been taken to recover arrears business tax amounting to Rs.234,300 industrial tax of Rs.20,000 and tax on income amounting to Rs.172,584 as at 31 December in the year under review.	Business tax amounting to Rs.16,650 industrial tax of Rs.7,000 and income tax amounting to Rs.172,584 have been recovered and action has been taken to	-Do-

recover the remaining arrears amounts.

(b) **Rents**

The Council had not taken steps to recover the rent arrears of Rs.1,518,805 receivable as at 31 December of the year under review for meat shops, fish display tables, sathipola and tenders.

A sum of Rs.36,000 has been charged for fish display tables. Legal steps have been taken to recover the remaining arrears amounts.

Action should be taken to recover the remaining arrears amount.

(c) **Other Revenue**

Court fines of Rs.7,991,379 and stamp duty of Rs.17,927,705 that should have been received from the Chief Secretary of the Provincial Council and from the other authorities as at 31 December 2022 had not been collected.

Accepted.

Stamp duty and court fines should be made delivered.

3. Operational Review

3.1 Performance of Functions Assigned by the Act

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, 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 and all amenities within such area, are mentioned below.

3.1.1 Conduct of Cattle Slaughter houses

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
Charges not more than Rs.10.00 had not been levied in the year 2022 for every 01 kg of meat inspected and marked by the Public Health Inspector in accordance with Section 09 of By-law 32 of the Common Standard By-laws published in the Gazette Notification dated 23 August 1988 for the animals slaughtered in the slaughterhouses located in the Pradeshiya Sabha limits.	Action will be taken to recover from the year 2023.	Action should be taken in terms of by-laws.

3.2 Management Inefficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
<p>The refundable security deposit amounting to Rs.50,000 which had been received as per receipt number 679 on 11 May 2020 for Aluthgama Beef Store, had been offset according to the photocopy of the receipt related to the rent to be received in the year 2021, and the same deposit amount had been offset on 02 occasions for the rent to be received in the year 2022 by submitting the original copy of that receipt.</p>	<p>Action has been taken to recover.</p>	<p>The loss should be recovered from the responsible officials and it should be reported to audit.</p>

3.3 Operational Inefficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
<p>Action had not been taken even in the year under review to settle the balance of Rs.1,674,872 in the miscellaneous deposit balance that had not been remitted to the Public Service Provident Fund for a period of 01 to 04 years and 16 cheques amounting to Rs.289,054 that had exceeded 06 months, and an amount of Rs.17,958 that had not been remitted to the Widows' and Orphans' Pension Fund in the year 2019 and an amount of Rs.9,589 that had to be remitted to the Department of Local Government.</p>	<p>An amount of Rs.448,396 has been remitted to the Public Service Provident Fund. I will make arrangements to send the remaining Rs.1,226,475 promptly. Action will be taken to repay only 15 cheques amounting to Rs.89,054 or to credit them to income and the remaining amount has been paid.</p>	<p>Outstanding installments should be remitted promptly.</p>

3.4 Asset Management

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
<p>Even though the tube well, built in the year 2019 at Lolugaswewa garbage yard using the allocation of Rs.700,000 received from the Department of Local Government, had been inactive for over 02 years, it had not been resolved and the water required for the garbage yard had been obtained from outside by incurring an additional cost.</p>	<p>The pump has been sent for repairing.</p>	<p>Action should be taken to repair the tube well promptly.</p>