

Nuwaragam Palatha East Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nuwaragam Palatha East Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, Comprehensive Income Statement/ Statement of changes in equity / 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 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 Nuwaragam Palatha East 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

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 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 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 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.

- (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 Observation	Comments of the Council	Recommendation
(a) Certified expenditure of Rs.5,120,520 relating to 29 projects mentioned in the creditor's balance as on 31 December of the year under review was not mentioned as assets in the statement of assets and liabilities.	Those payments were made in the year 2023 and therefore not shown as assets.	As the expenses have been certified and recognized as creditors, they should be shown as assets in the year 2022.
(b) Certified expenditure of Rs.4,554,090 relating to 26 projects mentioned in the debtor's balance as on 31 December of the year under review was not mentioned as capital grants in the statement of assets and liabilities.	As the bills received in 2023, it was not capitalized.	Since they are identified as debtors, they should be shown as capital grants for the year 2022.
(c) Recurrent expenditure of Rs.1,189,008 incurred from the LDSP project in the year 2021 and 2022 was not recognized as recurring grants.	Action will be taken to correct in the year 2023.	Recurrent expenses should be properly identified.
(d) The stamp duty receivable was understated by Rs.3,002,463 as on December 31 of the year under review	Accept.	The correct value should be accounted for.
(e) The income from billed advertisement was overstated by Rs.75,222 in the financial statements as on 31 December of the year under review.	- Do -	- Do -
(f) The 03 percent employer contribution of Rs.116,204 to be paid to the employee trust fund in relation to 19 casual employees of the Pradeshiya Sabha, was not shown in the statement of assets and liabilities of the year under review.	- Do -	- Do -

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| (g) | According to the expenditure register, the donation in the year under review was Rs.337,500 but in the comprehensive income statement, it was stated as Rs.639,313. | These donations are included in the store account. | The correct value should be accounted for. |
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1.6.2 Unreconciled Control accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) According to the financial statements related to 06 accounting objects, the value was Rs.2,174,364,617 and according to the related schedules, the value was Rs.2,110,062,063 therefore a total difference of Rs.64,302,554 was observed.	Accept	Schedules should be compared with corresponding records.
(b) According to the financial statements related to 08 accounting objects, the value was Rs.4,912,000 and according to the related register, the value was Rs.4,921,080 therefore a difference of Rs.495,564 was observed.	- Do -	- Do -

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
(a) Schedules including the years in which those assets were accounted for were not submitted to calculate the capital expenditure grant amount of Rs.3,166,420 identified in surplus/deficit.	Accept	Confirmations must be submitted.
(b) Detailed schedules, balance confirmations and age analysis were not submitted to confirm 06 assets amounting to Rs.15,096,367.	- Do -	- Do -

1.7 Non- Compliances

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

The instances related to non-compliances with Laws, Rules, Regulations are shown below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulations 570 and 571	Action had not been taken for 78 General Deposit balances of Rs.485,500 which had been deposited for a period of more than 02 years.	Action had been taken to take as income.	Proof of taken to income should be submitted.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.4,637,749 as against with the excess of expenditure over revenue amounted to Rs.17,445,266 in the preceding year.

2.2 Revenue Administration

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

Information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	3,437,000	2,436,695	1,891,095	870,120	3,036,000	2,036,000	2,349,097	324,520
(ii) Rent	10,428,000	4,848,201	5,124,094	1,396,977	9,660,875	4,460,875	5,114,074	1,672,870
(iii) License Fee	1,565,000	1,128,544	1,440,705	1,111,264	1,965,000	1,465,000	1,215,906	1,423,425
(iv) Other Revenue	30,765,620	26,517,423	35,679,398	18,537,872	32,006,400	32,006,400	26,697,887	27,699,847
	46,195,620	34,930,863	44,135,292	21,916,233	46,668,275	39,968,275	35,376,964	31,120,662

2.2.2 Performance in Revenue Collection

Following observations are made regarding the revenue collection performance of the council.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
It had selected and gazetted 06 Grama Niladari areas to collect Rates and Taxes in the Sabha area, but assessments had not been made and Action had not been taken to collect Rates and Taxes.	The survey is done and sent to the Valuation Department.	The action for recovery of Rates and Taxes should be expedited.
(b) Rent		
(i) The rent due for 06 shops belonging to the Sabha was Rs.84,000.	Not commented.	Action should be taken to recover.
(ii) The arrears income of Rs.1,199,133 as of 11 December 2022, due for asset leases between years 01 to 03 years had not been collected.	- Do -	- Do -
(c) License Fee		
A sum of Rs.1,096,719 had not been collected for the billboards installed in the council area due from a period of 01 to 09 years as of 31 December 2022.	A sum of Rs.308,817 has been collected. Legal action has been taken to recover the remaining arrears.	Action should be taken to recover the arrears.
(d) Other Revenue		
Court fines of Rs.5,336,813 and stamp duty of Rs.26,375,504 should have been received from the Chief Secretary of the Provincial Council and other authorities as on 31 December of the year under review.	Court fines amounting to Rs.331,168 and stamp duty amounting to Rs.4,524,888 are outstanding.	The correct amount due should be confirmed and collected.

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Due to the large amount of gravel being transported in Keerakkulama, which is within the area of the local council, the council had not prepared a system of collecting fees on the gravel cubes transported to restore the damage to the roads of the council area.	Not commented.	A fee collection system should be implemented to repair the damage caused to the roads in the area due to the transportation of gravel.
(b) The local council had not taken steps to settle 04 account balances of Rs.3,042,929 due between 02 and 05 years.	These fees are being paid	Old balances should be paid and settled.

3.2 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Action had not been taken to call the officials in charge of the relevant departments and to conduct an investigation and to take action to recover the losses regarding the deficiencies of 577 units related to 92 types of goods revealed by the board of survey for the year ending 31 December 2021.	The Local Government Department has been informed to conduct an investigation.	Inspection reports should be obtained promptly and necessary action should be taken.
(b) 04 lands that were given to the council from the auction lands were idle due to non-use effectively.	The relevant officials have been informed.	Action should be taken to protect these lands and use them effectively.

4. Accountability and Good Governance
4.1 Environmental Issues

Audit Observation	Comments of the Council	Recommendation
The council did not have any equipment or center to produce organic fertilizers from decomposable waste	Proposals for preparing a waste management project have been sent to the Local Government Department.	Necessary arrangements should be made for proper disposal of the waste generated in the council area.