

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Narammala Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, statement of changes in 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 the 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 Narammala Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities

1.2 Basis for Qualified Opinion

I express qualified opinion 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 determines 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 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 Sabha	Recommendation
(a) The value of furniture and fitting as at 31 December of the year under review had been overstated by Rs.230,314.	Actions will be taken to correct it in the preparation of final accounts in the year 2023 .	It should be accurately accounted for .
(b) Industrial creditors and industrial debtors had been overstated by Rs.1,225,991 and Rs.584,356 respectively as at 31 December of the year under review .	-do-	-do-

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
There was a difference in the total value of Rs. 2,597,066 between the 04 accounting items of the financial statement and the schedules.	The Subject Officer has been instructed to update it accurately in the year 2023.	It should be accurately accounted for .

1.7 Non –compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations Management Decisions etc.	Non-compliance	Comments of the Sabha	Recommendation
Code of Pradeshiya Sabha (Finance and Administration) Rules			
(i) Rule 61	An early year survey on trade licenses, business taxes and professional taxes had not been carried out and documented.	Actions will be taken to maintain the documents regularly.	The instructions in relevant rule should be followed.
(ii) Rule 218	Although a survey on land building should be conducted annually by a Board appointed by the Chairman, it had not been so done.	Actions will be taken to carry out a formal survey in the future.	-do

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2022 was Rs. 23,131,722 and the income exceeding the recurrent expenditure of the preceding year was Rs. 23,636,609.

2.2 Revenue Administration

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

The estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
I. Rates and Taxes	12,796	17,790	12,159	5,631	12,513	12,590	12,484	2,806
II. Rents	26,457	24,774	24,032	742	25,902	21,915	20,844	1,071
III. License Fees	1,163	1,852	1,852	-	1,163	1,100	1,100	-
IV. Other Income	31,296	74,513	44,663	29,850	12,590	43,369	16,553	26,816
V. Income Assistance	65,390	72,946	67,502	5,444	65,588	62,803	58,467	4,336
Total	137,102	191,875	150,208	41,667	117,756	141,777	109,448	35,029

2.2.2 Performance on Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Rates and Taxes The outstanding balance for more than 05 years amounted to Rs.673,332 and the outstanding balance between 03-05 years amounted to Rs.151,133 had to be recovered from the outstanding rates balance.</p>	<p>Actions will be taken to recover arrears of rates.</p>	<p>Actions should be taken to recover the arrears of rates promptly.</p>

- (b) **Acreage Taxes**
 The Sabha had not acted to recover arrears of acreage taxes amounted to Rs. 78,641 as at 31 December 2022 .
 Actions will be taken to recover arrears of acreage taxes.
 Actions should be taken to recover the arrears of acreage taxes promptly.
- (c) **Court Fines and Stamp Duties**
 The court fines and stamp duties that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 were Rs.5,850,164 and Rs.24,000,000 respectively.
 Actions will be taken to bring that money in the year 2023 .
 Actions should be taken to collect court fines and stamp duties promptly.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the assessment rates should be made once in 05 years, the assessment of rates was last done by the Pradeshiya Sabha in the year 2015 .	The developed village areas have been gazetted and necessary steps will be taken to declare developed village areas once the environment in the country is back to normal.	Actions should be taken to carry out assessment of rates once in 05 years and to identify developed areas and collect rates.
(b) The value of 10 types of sports equipment and chairs and tables received as donations for the stadium and the value of 06 items received as donations to the pre-school had not been assessed and accounted for.	It has not been possible to account for the year 2022 and it will be assessed and accounted for in the year 2023.	It should be accurately accounted for.

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|-----|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|------|
| (c) | The value of the new Sabha building and two lands owned by the Sabha were not assessed and shown in the financial statements. | Actions will be taken to assess and account for in the year 2023. | -do- |
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3.2 Failure to Achieve Desired Level of Output from Projects

Audit Observation	Comments of the Sabha	Recommendation
The retention money had been released in the year 2022 to the community organization that carried out the relevant project for the Narammala Kivulgalla Drinking Water Project and although the Sabha had incurred an expenditure of Rs. 1,982,504 for that Project again in the year 2022, the project remained in idle without providing drinking water to the community.	Even though the laying of water pipes for the drinking water project has been completed, as water meters were not installed it was not in working condition and the necessary activities are being carried out to supply drinking water by providing water meters by now.	The activities related to supply of drinking water should be done immediately.

3.3 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
A sum of Rs.2,450 and Rs.264,571 were not collected from 02 officers who had left the service and 04 retired officers respectively as at the last day of the year under review.	Actions will be taken to recover the relevant money in the future.	Actions should be taken to recover employees' loan balances.

3.4 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
Arrangements had not been made to take over 03 lands and a burial grounds to the Sabha.	Actions are being taken to take over.	Actions should be taken to take over the assets belong to the Sabha.

3.5 Idle and Underutilized Assets

Audit Observation	Comments of the Sabha	Recommendation
The fish stall number 04 in the public market had remained in idle from the midst of the year 2022 .	No one has appeared to take on lease for the year 2022 after the fourth tender of the year 2022 .	Arrangements should be made to generate income from leased properties

4. Accountability and Good Governance

Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
As a result of existing of 32 per cent to 96.7 per cent variation between net provision and actual expenditure related to 11 expenditure objects and 53 per cent to 100 per cent quantitative variation between budgeted income and actual income in 04 revenue items, the Budget was not made use as an effective management control tool.	Actions will be taken to accurately calculate and to be budgeted in the year 2023 .	A Budget should be prepared by making a forecast regarding the income and expenses of the year.