

## **Nattandiya Pradeshiya Sabha - 2020**

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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 Nattandiya Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial operations and the statement of changes in net assets for the year then ended and significant accounting policies and other explanatory information 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 Sabha 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 Nattandiya 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**

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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 (SLAuS). 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**

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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 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 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 (Responsibilities of Auditors 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 exercise professional judgment and maintain professional skepticism 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, 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 Pradeshिया Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Other Legal Requirements relating to Reports

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Special provision with regard to the following were included in the National Audit Act No. 19 of 2018.

- The financial statements of the Pradeshिया Sabha were similar to the previous year as per the requirement pointed out in Section 6(1)(d)(III) of the National Audit Act No. 19 of 2018.
- Recommendations made by me during the previous year were included in the financial statements presented in terms of requirements pointed out in Section 6(I) (d) (IV) of the National Audit Act No. 19 of 2018.

## 1.6 Financial Statements

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### 1.6.1 Accounting Policies

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<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) Even though a sum of Rs.5,291,994 had been adjusted in the statement of changes in net assets as prior year adjustment, the nature of that value had not been disclosed in the financial statements.	I will take action in future to show the changes in net assets under the special disclosures in the financial statements.	Nature of the value should be disclosed in the financial statements.
(b) The comparative information of the previous period should be disclosed for all the quantitative information reported in the financial statements. However, comparative information had not been presented for the value included in the statement of changes in net assets and for the value including addition and disposal relating to the Note of property plant equipment.	I will take action in future to present that information.	The comparative information of the previous period should be presented.
(c) Even though court proceedings had been initiated with regard to rental arrears, common lands, business tax, dishonored cheques, and other programs of the Sabha, disclosures in that regard had not been made in the financial statements.	I inform to the audit that action will be taken in future to disclose that information under the special disclosure.	Information relating to the initiated court proceedings should be disclosed in the financial statements.

## 1.6.2 Accounting Deficiencies.

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) There was a debit balance of Rs.5,009,985 in the Value Added Tax Account (VAT) as at the end of the year under review. The relevant value had been debited to the Accumulated Fund through a journal entry as the balance of the VAT account that was not allowed to set off, without obtaining confirmation or not making inquiries relating to this value from the Department of Inland Revenue about the action to be taken relating to this balance.	I inform you that action will be taken to make enquiry and take action according to the reply given for that enquiry.	Action should be taken according to the advice of the Department of Inland Revenue.
(b) Ten lands at the extent of 10 acres 07 perches which were utilized by the Pradeshiya Sabha for long period, included in the Register of Fixed Assets had not been assessed and brought to the financial statements.	I inform you that action will be taken in future to assess the land and include in the financial statements.	Action should be taken to assess the value of lands and include in the financial statements.
(c) Lands at the extent of 2 acres amounting to Rs.48,000,000 included in the Register of Fixed Assets had not been shown in the financial statements.	I inform you that action will be taken in future to include in the financial statements.	Action should be taken to include the value of lands in the financial statements.
(d) Assets at the total value of Rs.746,571 purchased by the Sabha in the year 2020 had not been brought to account under the fixed assets.	I inform you that it will be accounted under the fixed assets.	All the fixed assets should be accounted.

- (e) Assets at the total value of Rs.1,749,320 shown as creditors as at 31 December 2020 which were received by the stores during the year under review, had not been accounted under the fixed assets. I inform you that those assets will be accounted under the fixed assets while preparing the financial statements for the year 2021 as the payments for these assets had been made in the year 2021. Since the stores had received the assets by 31 December 2020 those assets should be accounted under the fixed assets.
- (f) A sum of Rs.33,837,329 spent up to 31 December of the year under review for construction of new head office building of the Pradesiya Sabha and construction of new compost yard of the solid waste management center had not been capitalized. I inform you that action will be taken to capitalize the amount spent. The entire expenses spent as at 31 December 2020 should be capitalized.
- (g) Stamp fees receivable as at 31 December 2020 valued at Rs.14,726,722 had been understated in the accounts. I inform you that a copy on which the amount entered by the Department of Provincial Revenue was not received at the time of preparation of accounts. Since that copy was received on 03.02.2021, the value of Rs.7,229,713 had only been adjusted in the accounts. The correct value should be accounted.

## 1.7 Non - compliance

### Non – compliance with Laws, Rules, Regulations and Management Decisions.

Instances of non – compliance with laws, rules, regulations and management decisions are given below.

<u>Reference to Laws, Rules, Regulation etc.</u>	<u>Non-compliance</u>	<u>Comments of the Sabha</u>	<u>Recommendation.</u>
Section 1.1 of the Budgetary Circular No 118 dated 11 October 2004.	A loan balance of Rs.361,630 had to be recovered as employee loans from 05 employees who went on transfer of service station.	I will take action to expedite the recovery of outstanding loan balances.	Action should be taken to expedite the recovery of outstanding employees loan balances.

## 2 Financial Statements.

### 2.1 Financial Results.

According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.106,000,263 as compared with the corresponding excess of revenue over recurrent expenditure for previous year amounted to Rs.135,454,187.

### 2.2 Revenue Administration

#### 2.2.1 Performance of the Collection of Revenue.

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) Rates and Acreage Tax ----- Action had not been taken to recover the balance of arrears of rates and taxes amounting to Rs.13,244,323.	I inform you that the progress of the collection of revenue had decreased as there were obstructions throughout the year to collect revenue due to corona epidemic.	Action should be taken to collect the revenue within the year for which billed during the year.
(b) Rent ----- Action had not been taken to recover the balance of arrears of stall rent and lease rent amounting to Rs.1,030,102.	I will take action to expedite the recovery of arrears amount.	Action should be taken to collect the stall rent within the year for which billed during the year.
(c) Court Fines and Stamp Fees ----- Even though a sum of Rs.110,000,000 had to be received as stamp fees from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review, it had not been recovered.	I will take action to expedite the recovery of arrears amount	Entire fines and stamp fees for the year under review should be identified and recovered in an updated manner.

### 3 Operating Review

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Matters observed with regard to fulfilling regulation and administration of facts relating to public health, public utility services and public roads with the protection of comfort, convenience and welfare of the people by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

#### 3.1 Uneconomic Transactions

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##### Audit Observations

The private auctioning company had purchased the entire Mavila Keenikelawatta Land at the extent of 2.04 hectares on 2019 October 26 by sub dividing as 02 plans as to the manner of less than one hectare and approval of the Chairman of the Pradeshiya Sabha was obtained on 12 March 2020 for allotment of land. Submitting 02 plans for allotment of entire land was an effort made to avoid the relevant rules and regulations and as such the Sabha had deprived 64 perches of plot of land to be inherited for common facilities from the land.

##### Comments of the Sabha

Even though an advice was requested from the Urban Development Authority for allocation of a plot of land from this land for common facilities, the Saba has received an advice from that institute stating that allocation of land for common activities is not necessary.

##### Recommendation

Action should be taken in accordance with the rules and regulations relating to the allotment of land.

#### 3.2 Management Inefficiencies.

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##### Audit Observations

A sum of Rs.360,338 given for activities such as winnings of competition and employees reward by other Government institutions and private institutions during the period 2019- 2020 had been retained in the miscellaneous deposits account without utilizing for that purpose.

##### Comments of the Sabha

I inform you that action will be taken to release deposits that could be released out of those deposits and take the balance deposits to the income.

##### Recommendation

Action should be taken to release the deposit amount or to take into the income.

### 3.3 Operating Inefficiencies.

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) A condition stating that the water charges and electricity charges should be paid by the lessee, was not included while entering into an agreement for Marawila weekly market and as such sums Rs.141,972 and Rs.155,256 respectively had been paid from the Sabha funds for water bills and electricity bills in the year 2020.	I inform you that such a condition had not been included in the relevant agreement and action will be taken in future to include these conditions for lease agreements relating to those properties.	The relevant condition should be included while entering into an agreement.
(b) Even though a stock control software for stock control activities of the Sabha had been installed on 12 October 2015 by spending Rs.150,000 in the year 2015, the software had not been utilized for the relevant activities up to the end of the year under review.	I inform you that action will be taken to pay the balance amount after deducting a sum of Rs.150,000 paid for the stock control software.	Action should be taken to recover the amount paid for the stock control software.

### 3.4 Transactions of Contentious Nature

<u>Audit Observations</u>	<u>Comments of the Sabha</u>	<u>Recommendation</u>
(a) It was shown by the Planning Officer of the Urban Development Authority and Puttalam District Planning Committee of the Urban Development Authority that 10 percent of common land plot should be physically allocated for common purpose from the Ihala Katuneriya Bogahalande Land. However, the Pradeshiya Sabha had recommended to obtain from the amount of market value of 10 percent of measured value of this land without considering that.	I inform you that action will be taken according to the advice presented by the District Committee of the Urban Development Authority.	Action should be taken according to the rules and regulations relating to the allotment of land.



- (b) A land at the extent of 01 root 4.30 perches from the allotment of auctioned land of Koswadiya Marahenya Agare was given to the Pradeshiya Sabha and the allotment was changed at the time of audit inspection on 13 January 2021. It was observed that the 4.5 meter width of road across the common land of the Pradeshiya Sabha had been extended. Further, even though the plan of allotment of land was approved on 29 March 2019, the fitness certificate had not been obtained up to the time of the audit. Further, a sum of Rs.194,620 as 1 percent tax had been recovered for this land. However, particulars relating to the market value had not been submitted by the auctioneer.
- The road across the common land of the Pradeshiya Sabha was extended in order to travel to the land situated at western direction of this land. It was informed to the relevant parties to obtain the fitness certificate and present the sales report.
- Action should be taken according to the rules and regulations relating to the allotment of land.
- (c) If the extent of land allocated for common purposes in terms of Section 22 (1) (c) of the Gazette No 935/6 dated 06 August 1996 is less than 20 perches, the approval of the Chairman of the Urban Development Authority should be obtained for the recovery of its market value. However, the market value of Rs.449,500 of a land at the extent of 15.3 perches which was belonging to the Sabha according to the report of the Revenue Examiner of the Pradeshiya Sabha, while making allotment of Mahawena Village land had been brought to the revenue of the Sabha by a receipt without obtaining such an approval.
- I inform you that advice of the Urban Development Authority will be taken in future to take action accordingly.
- Action should be taken according to the rules and regulations relating to the allotment of land.