

Narammala Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Narammala Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, cash flow statement for the year then ended and a summary of 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 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 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 financial statements give a true and fair view of the financial position of the Narammala Pradeshiya Sabha as at 31 December 2020, and 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 (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

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 of the Sabha.

1.4 Scope of Audit (Auditor's Responsibilities 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 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 Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 presented by the Pradeshiya Sabha are 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 -----	Comment of the Sabha -----	Recommendation -----
(a)	Value of 04 items of account amounting to Rs. 693,587 had been overstated in the financial statements.	It is informed that action will be taken to correct the error.	Accuracy should be ensured in the process of accounting.
(b)	There were omissions of Rs. .9,459,323 relating to 06 items of account in the financial statements.	It is informed that action will be taken to correct the error.	Accuracy should be ensured in the process of accounting.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
A difference of Rs. 63,323 was observed between the value as per the financial statements and the value as per the corresponding reports relating to 02 items of account and action had not been taken to rectify the accounts by reconciling differences of relevant balances.	It is informed that action will be taken to correct the shortcomings pointed out by the Audit.	Accuracy should be ensured in the process of accounting.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Details required for the audit relating to 08 items of account totaling Rs. 13,074,935 had not been furnished.	Schedules have been furnished to the Audit and shortcomings pointed out by the Audit are accepted.	Evidence in support of the accounts balances shown in the financial statements should be furnished.

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 as follows.

Reference to laws, rules, regulations	Non-compliance	Comment of the Sabha	Recommendation
Paragraph 03 of the General Circular No. PL/7/1/18/1 without date in March 2020 of the Secretary to the Ministry of Public Administration, Home Affairs, Provincial Council, and Local Government.	Despite being instructed that free distribution of goods should not be promoted by the funds owned by the Provincial Council or Local Government Authorities during the Corona epidemic, a sum of Rs. 1,044,530 had been spent out of the Sabha fund without being adhered to the above instructions. These dry rations had not been properly distributed and it had been provided to the persons who had received other benefits as well.	Formal approval of the Hon. Governor has been received to pay Rs.1,044,530 spent for that purpose.	Action should be taken in accordance with the circular instructions.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 18,040,622 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 18,948,782.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
Of the deficit that existed at the beginning of the year under review, a sum of Rs.2,239,609 had remained recoverable and a sum of Rs.5,887,837 remained recoverable from the billed amount.	It is informed that action will be taken to recover those monies in the year 2021.	Arrears should be recovered in time.

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 Sabhas 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 Performance

Audit Observation	Comment of the Sabha	Recommendation
Eleven projects that had not been budgeted for the year under review had been completed at a cost of Rs.7,524,707 of the Sabha Fund on the approval of the General Assembly.	These projects have been executed at the requests of the Hon. Members and approval of the General Assembly.	Projects should be executed according to the annual budget.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) As the Sabha had not taken action in the year 2020 to lease 09 assets which are usually given on annual lease, Sabha had lost Rs.1,536,291 on the minimum bid value.	Even though tenders were invited four times in the year 2020, no purchasers were presented.	Assets owned by the Sabha should be leased to increase the revenue.