

## **Nuwaragam Palatha Central 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 Nuwaragam Palatha Central Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, 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 Sub-section 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 accompanying financial statements give a true and fair view of the financial position of the Nuwaragam Palatha Central Pradeshiya Sabha as at 31 December 2020, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **1.2 Basis for Qualified Opinion**

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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 (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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards 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 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.

#### 1.4 **Scope of Audit (Auditor's Responsibility in Auditing 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 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 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 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.

- As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(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) Capital expenditure grants of Rs. 8,433,913 received during the year under review had not been brought to account under the equity in the statement of assets and liabilities.	Accepted.	Capital grants should be stated in the statement of assets and liabilities.
(b) According to the Circular No. 2019/02 issued on 31st December 2019 by the Commissioner of Local Government, North Central Province and Note No.16 of the Financial Statements, when depreciating fixed assets under the diminishing balance method, the depreciation value for the year under review was Rs. 18,445,784. Nevertheless, it had been brought to account as Rs. 9,222,892 and as a result, the profit and the fixed assets of the Sabha had increased by Rs. 9,222,892 .	It is accepted that this error had caused in the calculation of depreciation.	Depreciations should be calculated in accordance with the depreciation policy.
(c) As a sum of Rs. 3,743,700 received from the Department of Local Government in the year under review for the Regional Development Assistance Project had not	Action will be taken to correct this by journal entries.	Deposit balances should not be identified as income.

been accounted for as a deposit balance and it had been brought to account as an income for the year under review, the annual income and the deposit balance of the Sabha had increased and decreased by that amount respectively.

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| (d) | As the capital assets worth Rs. 7,217,146 constructed during the year under review had been brought to account as recurrent expenditure, non-current assets had decreased by that value and recurrent expenses had increased by that value.  | Action will be taken to correct this by journal entries. | Capital assets should be identified as fixed assets.          |
| (e) | During the year under review, Rs. 2,409,907 had been spent on 20 road rehabilitation projects with culverts. As the repair value of the culverts on those roads had not been identified and brought to account, fixed assets and the recurrent expenditure of the Sabha had been understated and overstated by that amount respectively. | Action will be taken to correct this by journal entries. | Culvert construction should be accounted for as fixed assets. |

## 1.6.2 Lack of Documentary Evidence for Audit

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### Audit Observation

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As detailed schedules on 02 items of accounts worth Rs. 154,260,000 had not been furnished, those could not be satisfactorily verified in audit.

### Comment of the Sabha

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Requests have been made for transferring.

### Recommendation

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Evidence in support of the ownership should be presented.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 13,086,812 for the year ended on 31 December 2020 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 8,882,652.

## 2.2 Revenue Administration

### 2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a) <b>Rates and Taxes</b>		
Outstanding business tax of Rs. 85,800 as at 31 December of the year under review had not been recovered.	Requests have been made from the Local Government Department to write off the arrears before the year 2020 and the arrears for the year 2020 are being recovered.	Outstanding taxes should be recovered and legal provisions should be followed regarding unrecovered arrears of tax.
(b) <b>Rent</b>		
The Sabha had not taken action in accordance with the agreement to recover the arrears of Rs. 2,053,137 due from 01 to 08 years as at 31st December of the year under review, take legal action and duly write off the unrecovered balance.	Requests have been made to the Local Government Department to write off Rs. 131,532 from this arrears. Awareness has been raised to recover Rs. 575,271.	Action should be taken to recover the rental income relevant to the year under review and to write off the unrecovered rent after obtaining formal approval.
(c) <b>Other Income</b>		
No action had been taken to recover Rs. 231,800 due on billboards as on December 31 of the year under review.	Lawsuits have been filed to recover this money.	Expeditious action should be taken to recover the dues.

## 3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 03 of the Pradeshiya Sabha 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 Management Inefficiencies

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<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a) An advance balance of Rs. 56,617 at the beginning of the year under review had been written off during the year under review without obtaining Sabha approval.	This is an accounting error and action will be taken to seek Sabha approval to correct such errors in the future	Action should be taken to write off on the Sabha approval.
(b) As revenue licences of 06 vehicles owned by the Sabha had not been obtained on the due date, late fee of Rs. 25,445 had to be paid as at 30 November 2020.	Accepted.	Action should be taken to obtain revenue licences without delay.
(c) An amount of Rs. 2,505,266 received for the Pura Neguma project remained idle in an official bank current account of the Sabha even by 12 February of the year under review.	It is stated that an appropriate action will be taken.	Funds should be invested without being left idle.

## 4. Accountability and Good Governance

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### 4.1 Environmental Issues

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<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
The Sabha collects 800 tons of garbage annually at a cost of Rs. 3,872,340. Part of it is used to produce compost and the rest was being released into the environment informally.	Action will be taken to manage waste properly in the future.	Action should be taken to disposed of waste properly.