

## **Nochchiyagama 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 Nochchiyagama 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 Nochchiyagama 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

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National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) 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.
- (b) 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

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### 1.6.1 Non-compliance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions

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#### Non-compliance with reference to the relevant standards

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The depreciation policy of assets as at 01 January 2020, the transition date had not been disclosed in the financial statements in terms of Section 6.20 (b) of the Sri Lanka Public Sector Accounting Standards for Local Government Institutions- 2017.

#### Comment of the Sabha

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Accepted.

#### Recommendation

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The depreciation policy of assets as at the transition date should be disclosed in terms of Public Sector Accounting Standards.

### 1.6.2 Accounting Deficiencies

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#### Audit Observation

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- (a) Even though Rs. 885,383 was payable for pension gratuity as at 31 December of the year under review as per the monthly summary of the Department of Pensions, it had been stated as Rs. 878,094 in the financial statements thus understating by Rs. 7,289 and this

#### Comment of the Sabha

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Accepted.

#### Recommendation

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Correct pension gratuity value should be accounted for and it should be settled after being identified the relevant parties.

balance continued to exist for more than a period of 05 years had not been settled even in the year under review.

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| (b) | Although the value of certified works relating to 06 projects as at 31 December of the year under review was Rs. 662,446, it had been stated as Rs. 3,960,000 in the financial statements and as such, debtors and creditors expenditure had increased by Rs. 3,297,554. | Accepted. | Debtors and creditors value should be brought to account according to the certified expenditure relating to the projects. |
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### 1.6.3 Non-reconciled Control Accounts or Reports

#### Audit Observation

#### Comment of the Sabha

#### Recommendation

A difference of Rs. 5,200,968 was observed between the balances relating to 03 items of accounts stated in the financial statements and the balances shown in the relevant schedules.

Accepted.

Correct values should be stated in the schedules.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 49,361,383 for the year ended on 31 December of the year under review as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 13,808,419.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

#### Audit Observation

#### Comment of the Sabha

#### Recommendation

##### (a) Rates and Taxes

No action had been taken to recover the arrears of Rates of Rs. 4,558,097 as at 31 December of the year under review.

Action will be taken to recover the Rates in the future.

Arrears of Rates should be recovered.

**(b) Rent**

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No action had been taken to recover the rent income of Rs. 13,789,360 due as at 31 December 2020.

Legal action has been taken to recover the dues.

Action should be taken to recover and account for the dues.

**(c) Licence Fees**

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Licence and service charges of Rs. 237,740 due as at 31 December of the year under review had not been recovered.

This will be documented and levied charges accordingly.

Action should be taken to update the documents and recover the dues.

**(d) Other Income**

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No action had been taken to recover the arrears of revenue amounting to Rs. 4,974,837 due from Nochchiyagama, Kukulkotuwa, Horuwila and Ihalawetiyawa water projects as at 31 December of the year under review.

A proper arrangement will be duly made to recover this arrears.

Action should be taken to recover the revenue in arrears.

**3. Operating Review**

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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.

**4. Accountability and Good Governance**

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**4.1 Environmental Issues**

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**Audit Observation**

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- (a) Without being segregated, the Pradeshiya Sabha was burning degradable, non-perishable and electronic waste in a large open space of about 04 acres at Kusumpura and the gully waste brought by the gully truck was also being dumped openly on that land.

**Comment of the Sabha**

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Necessary arrangements will be made for the proper segregation of garbage In the future.

**Recommendation**

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Wastes should be disposed of properly.

(b) The compost production center constructed at a cost of Rs.16,938,732 in September 2019 remained idle and the garbage carried at a cost of Rs. 1,299,378 was piled up on 04 acres of land near the compost yard and set on fire during the year. The machinery required for the production of compost had not been procured.

Waste management process will be properly carried out after receiving the required equipment.

Action should be taken to obtain the necessary machinery and equipment for waste management.