

## **Nallur Pradeshiya Sabha - 2021**

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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 Nallur Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including 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 provisions of Sub Section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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 Nallur Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows 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 (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 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.

#### **1.4 Audit Scope (Responsibility of the Auditor 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 exercised 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, 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

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The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of the Pradeshiya Sabha is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Accounting Deficiencies

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Audit Observations -----	Comments of the Sabha -----	Recommendations -----
(a) Fourty items carried out by the Sabha during the year under review had not been completed. However, they had been included in the accounts of sundry creditors by prepairing payment vouchers, thus current liabilities and surplus of revenue had been overstated and understated respectively by Rs. 79,369,991.	This contract amount was allocated to the account of sundry creditors due to the difficulties in achieving the expected income of the Sabha's programs due to covid-19 and due to calling tenders by the end of the year due to the shortage of human resources in the sector. Actions will be taken based on your instructions in future.	Records should be maintained to ensure that activities are completed in accordance with accounting principles and that errors should be rectified.
(b) A loan of Rs. 1,228,438 to be paid in 2022 for local development loan should have been disclosed as current liability in the financial statement. However, it had been included in the loan capital, thus the loan capital had been overstated by that value and the current liability has been understated.	The opening balance of 2020 has been wrongly shown under loan capital (note no. 13) in the financial statement during the year under review. Such mistakes will be considered so that they do not occur in the future.	Steps should be taken to show the said values under current assets by ensuring that disclosures are made in due periods in accordance with accounting policies.

### 1.6.2 Unreconciled control accounts

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Audit Observations -----	Comments of the Sabha -----	Recommendations -----
(a) The differences between the closing balance as audited at the end of last year and the opening balance shown in the financial	These balances have been changed by mistake. Corrective action will be taken in the next financial	The correctness of the values found in the documents should be confirmed and the

statement of the year under review in respect of the following 03 items amounted to Rs. 1,590,021.

statement and such mistakes will not occur in the future.

errors should be rectified in the relevant documents.

(b) A difference of Rs. 1,028,129 was observed between the debt capital of the financial statement (note no. 13) and the debt capital shown in the disclosure note during the year under review.

The opening balance of 2020 has been wrongly shown under loan capital (note no. 13) in the financial statement during the year under review. Such mistakes will be considered so that they do not occur in the future.

The correctness of the values found in the documents should be confirmed and the errors should be rectified in the relevant documents.

### 1.6.3 Non-submission of Documentary Evidences for Audit

Item	Amount	Evidence not submitted	Comment of the Council	Recommendation
Sinking fund subsidy.	20,269,673	Decision of the council	A sum of Rs. 20,269,673 shown in the sinking fund subsidy account is shown as fixed deposit to cover depreciation of assets.	Actions should be taken to submit appropriate audit evidence regarding this matter and confirm that the evidence related to the activities of the Sabha is properly maintained by the Sabha.

## 2 Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 164,717,484 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 105,363,368.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collection of Revenue

Audit Observations	Comments of the Sabha	Recommendations
(a) <b>Rates and Taxes</b> The arrears of assessment tax amounting to Rs. 13,195,388 receivable over the past 02 years on lands and constructed houses and	Steps were taken to recover the arrears of assessment tax by issuing a red notice. In 2021, no action could be	Meaningful and appropriate action should be taken for recovering assessment

buildings located under the purview of Nallur Pradeshiya Sabha had not been recovered and the scheduled income of rates and taxes in the year under review was Rs. 29,764,219, but a sum of Rs. 12,763,950 had not been collected.

taken to recover the arrears of assessment tax due to the disruptions in providing mobile services. Such issues had been avoided in the budget of the year 2022, and the correct value has been changed. Such mistakes will be rectified in future.

tax arrears quickly.

**(b) Court fines and stamp duty**

Actions had not been taken to recover the court fine arrears of Rs 445,011 as at 31 December 2021 and stamp duty arrears of Rs. 3,875,162 and Rs 822,294 for over 05 years and the year under review respectively due from the chief secretary of the provincial council and other officials.

The court fines had been recovered and out of Rs. 3,875,162 to be recovered over 05 years, a sum of Rs. 2,894,342 had been sent for obtaining approval of the honourable governor for writing-off. Steps will be taken to write off the rest of Rs. 980,820.

It should be rectified the errors in balance disclosure in accordance with accounting principles.

**3. Operational Review**

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The matters observed in respect of execution of activities that should be executed by the Sabha under Section 3 of the Pradeshiya Sabhas Act such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

**3.1 Delays in Projects, Activities and Capital Works**

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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Delays in execution of 03 work schemes were observed.	Due to covid 19 pandemic and rain, the work could not be completed on time.	It should be ensured that projects are started and completed on time.

**3.2 Human Resources Management**

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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<b>Employee Vacancies and Excesses</b> The approved cadre of the sabha was 134, and actual cadre of the year under review was 123, thus the vacancies existed for 11 officers.	No answer given.	Appropriate action should be taken regarding cadre vacancies and excesses.