

Nuwaragam Palatha Central Pradeshiya Sabha -2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Nuwaragam Palatha Central Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets / equity and cash flow statement for the year then ended, and notes to the financial statements, 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 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 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 Nuwaragam Palatha Central Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Governments.

1.2 Basis for Qualified Opinion

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standard for Local Governments, 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

1.4 Scope of Audit Auditor's Responsibility 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:

- 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 the Pradeshiya Sabha's 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 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.

- (a) The financial statements of the Pradeshiya Sabha presented is 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

Accounting deficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) Three (03) buildings worth Rs.3,819,928 accounted as recurrent expenses in the previous year had been credited to the accumulated fund instead of accounting under capital grants in accounting as assets in the year under review.	This value credited to the accumulated fund was correctly accounted as capital grants.	Account balances should be correctly identified and accounted.
(b) The road construction funds amounting to Rs.3,743,300 of the LDSP project, for which funds had been received in the previous year, but had not been started, had been accounted in 02 occasions as capital grants in the year under review.	Accounting of grants received for the LDSP project was rectified in two occasions by journal entries 04 and 62.	Must be properly accounted.
(c) The amount of Rs. 283,489, which had been the expenditure of the laying of paving stones project for Kokkichchiya road in Mankadawala constructed in the previous year, had been accounted as capital grants on 02 occasions.	Rectified the over-recognition of the recognizable amount in the comprehensive income.	Must be properly accounted.
(d) Although the transfer revenue of the government for non-recurrent expenses on assets identified in the previous year had been Rs.1,364,913, it had been stated as Rs.1,652,944 in the statement of comprehensive income, considering it as 10 percent of the total value rectified under Journal 4 and 5 in the year under review.	Rectified the over-recognition of the recognizable amount of the comprehensive income.	Must be properly accounted.

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| (e) | Although the depreciation value of paths, culverts and road constructions for the year under review had been Rs.1,260,144, it had been understated by Rs.451,269 as Rs.808,875 in the statement of assets and liabilities. | Rectifying the understatement of depreciation. | Expenses must be properly accounted. |
| (f) | An advance of Rs.168,861 provided for road constructions under the LDSP project during the year under review had been brought to accounts as capital grants. | Rectification of the accounting of advance amount granted for recurrent expenses as capital expenditure. | Advances provided should be accounted as balances receivable. |

1.7 Non-Compliance

Non-compliance with laws, rules, regulations and management decisions

Instances of noncompliance with laws, rules, regulations and management decisions are mentioned below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Pradeshiya Sabha	Recommendation
Public Administration Circular No. 03/2018 dated 20 February 2018	A retired technical officer had been recruited on contract basis and he had been paid Rs.42,900 as monthly remuneration, Rs.99,200 as allowances for duty on holidays and Rs.48,000 as travel allowances.	As it was difficult for the Technical Officer and the two Technical Assistants to perform all the duties, this officer was recruited on contract basis and paid for holidays for duties that could not be performed on weekdays.	As per the Circular, a retired officer recruited on contract basis shall be paid only the monthly remuneration.

2. Financial review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure, which had exceeded the revenue of the Pradeshiya Sabha for the year ended 31 December 2021 had been Rs.12,587,583 and corresponding recurrent expenditure, which had exceeded the revenue in the previous year had been Rs.13,086,813.

2.2 Administration of Revenue

Performance in the collection of Revenue

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) Rates and Taxes		
Action had not been taken to collect arrears in garbage tax amounting to Rs.1,580,450 to be recovered by 31 December in the year under review.	The lists of garbage tax payers are being prepared. I will take action to collect the arrears.	The documents should be duly maintained and arrangements should be made to impose by-laws and levy charges.
(b) Rents		
The Pradeshiya Sabha had not taken steps to recover the arrears of rent amounting to Rs.1,467,207 receivable as at 31 December of the year under review.	Arrangements are being made to write off the rent arrears.	Arrangements should be made to recover the revenue arrears.

03. Operational review

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, 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 and all amenities within such area, are mentioned below.

3.1 Management Inefficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
Even though Rs. 7,140,209 had been spent on 02 roads constructed under the LDSP project and the Rural Road Development Project as at 31 December 2021, the expected level of output had not been achieved from those projects.	Contractors have been instructed to rectify the deficiencies.	Before certifying the bills, action should be taken to physically inspect the projects and take steps to certify the bills.

3.2 Asset Management

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) A sum of Rs. 2,505,266 that had been received by 12 February of the year	Since this amount is related to the Pura	Action should be taken to invest in short-term

under review for Pura Nenguma project remained idle in the current account of the State Bank in favour of the Pradeshiya Sabha without spending it for the project.	Neguma project, it has been deposited in the Pura Neguma bank account for making related payments.	investment channels.
(b) Although four (04) vehicles owned by the Pradeshiya Sabha had been inoperative from the period of 01 to 05 years, action had not been taken to repair and use the vehicles.	Arrangements are being made to repair and use the vehicles.	Arrangements should be made to repair the vehicles expeditiously and utilize them.
(c) Alayapattu weekly fair and Bulankulam weekly fair belonging to the Pradeshiya Sabha had remained idle and the attention of the Pradeshiya Sabha had not been focused on preparing the boundary fence of the land and protecting it.	I state that attention will be paid to protect those places.	The security of the relevant assets should be ensured and the necessary arrangements should be made to lease the assets.
(d) The gully bowser worth Rs. 2,500,000 and the tractor owned by the Pradeshiya Sabha remained idle throughout the year, 2021 as there had been no place to dispose of gully waste.	It is kindly informed that requests had been made from the Ministry of Provincial Council and Local Government to provide the necessary provision to prepare a place for waste disposal.	Necessary arrangements must be made to use the gully machine.
(e) Certificates of vesting of land had not been obtained for 109 plots of land worth Rs. 90,690,000.	Requests have been made from the Divisional Secretariats to vest lands.	Information required should be obtained for the verification of existing assets.

3.3 Deficiencies in Contract Administration

Audit observation

The work of only 13 projects, out of the 75 projects to be completed by 30 November under the Rural Road Development Programme – 2021, had been completed.

Comments of the Pradeshiya Sabha

I kindly inform that works of 13 projects, out of 75 projects, have been completed and not entered in to contracts for the other projects.

Recommendation

The planned projects should be commenced and completed within the year.