

Nuwaragam Palatha East Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nuwaragam Palatha East 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, 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 East Pradeshiya Sabha as of 31 December 2021, 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

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

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 Government 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 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 Scope of Audit (Responsibility of the Auditor for the audit of 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 exercised 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 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

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

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) The following recommendations made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit observations	Comment of the Council	Recommendation
The Balance of the cash book (general) amounted to Rs.757,421 according to the bank reconciliation statement yet under cash and cash equivalents in the statement of assets and liabilities, it was stated as Rs.1,768,350, as such overstating it by an amount of Rs.1,010,929 as at 31 December of the year under review.	Accepted.	The balance of cash and cash equivalents should be presented correctly in the statement of assets and liabilities.

1.6.2 Unreconciled Control Accounts or Records

Audit observations	Comment of the Council	Recommendation
There was a difference of Rs.29,233,473 in relation to 05 accounting items between the values mentioned in the financial statements and the values mentioned in the schedules.	Action will be takne to rectify it.	Action should be taken to rectify after investigating reasons for the change.

1.6.3 Lack of Documentary Evidences for Audit

Audit observations	Comment of the Council	Recommendation
Detailed schedules were not submitted for 04 accounting items with a total value of Rs.14,918,707.	Accepted.	The action should be taken to submit relevant detailed schedules

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are given below

	Reference to laws rules and regulations	Non-compliance	Comment of the Council	Recommendation
(a)	134(1) of the Provincial Council Act No. 15 of 1987	Action had not been taken to collect assessment after identifying developed areas in the area of authority of the Pradeshiya Sabha.	Action is being taken for collection of assessment.	Action should be taken according to the 134(1) of the Local Councils Act No. 15 of 1987.
(b)	Paragraph 3.1 of Public Administration Circular No.30/2016 dated 29 December 2016	05 vehicles owned by the council had not been tested for fuel consumption	Action will be taken to conduct the fuel inspection in the future	Action should be taken according to paragraph 3.1 of Public Administration Circular No.30/2016

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.7,039,971 as against with excess of recurrent expenditure over revenue amounted to Rs.17,445,266 in the preceding year.

2.2 Financial Control

Audit observations	Comment of the Council	Recommendation
Action had not been taken to pay and settle an amount of Rs.2,002,462 as contract retention existing in a Government bank current account from January 2018 to November 2021 to the relevant parties.	This money is held as a deposit for payment as it is the retention money of the contracts.	Action should be taken to settle the deposit holdings so that there are no demands for retaking the funds made from the concerned parties as per the Financial Regulations.

2.3 Revenue Administration

Performance in Revenue Collection

	Audit observations	Comment of the Council	Recommendation
(a)	Rent Action had not been taken to recover the arrears of rent income amounting to Rs.1,672,870 as on 31 December of the year under review.	Rs.31,100 have been recovered and Rs.7,000 have been offset by security deposits.	Action should be taken to recover all the arrears of rent to be collected.
(b)	License Fees		
(i)	Action had not been taken to recover the license fee income amounting to Rs.1,423,425 as at 31 December of the year under review.	Accepted.	Action should be taken to recover promptly arrears of license fees
(ii)	Action had not been taken to recover hording revenue amounting to Rs.627,000 due for the 2019 and 2020 even as at 31 December of the year under review.	The concerned parties have been prosecuted for recovery.	Action should be taken to recover the relevant arrears of hording revenue

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

	Audit observations	Comment of the Council	Recommendation
	Action had not been taken by the council to renew agreements although 9 - 26 years had passed since the agreement to rent 05 shop rooms owned by the Pradeshiya Sabha.	Accepted.	Action should be taken to renew agreements.

3.2 Assets Management

Audit observations	Comment of the Council	Recommendation
(a) Although the Pradeshiya Sabha had received 05 plots of land from land auctions required action had not been taken to protect the land using fences.	Accepted.	Action should be taken to fence and protect these lands.
(b) The economic centre at kawarakkulama junction which was built in 2019 at a cost of Rs.7,500,000 remained idle.	Action will be taken to use it effectively in the future.	Action should be taken to use it promptly.

4. Accountability and Good Governance

Environmental problems

Audit observations	Comment of the Council	Recommendation
Although a waste management centre was built in Kirikkulama area under the area of authority of the Pradeshiya Sabha, yet the garbage collected in the area of authority was not being recycled at the centre, as such the waste belonging to the council was being disposed of informally.	Garbage generated from the area is currently handed over to the Kirikkulam Garbage unit.	Action should be taken to recycle garbage including solid waste collected from the area of authority.