

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Narammala Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, and cash flow statement 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 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 Narammala Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 Generally Accepted Accounting Practices, 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)

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.

- (a) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as required by 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

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Due to omission of 04 assets worth Rs. 5,631,162 of the Sabha from the financial statements, the fixed assets and the revenue contribution to capital input account had been understated by that amount in the account.	It is informed that action will be taken to make corrections.	Accuracy should be ensured in accounting.
(b) Although the stamp duty income of Rs. 24,000,000 pertaining to the year under review should have been stated under the physical planning, thorofare, lands and building programmes, it had been stated under the general administration programme.	It is informed that it is correct to state this amount under the other income in the general administration.	Stamp duty income should be stated under the physical planning and thorofare
(c) Since the salary reimbursement income of Rs. 57,703,255 pertaining to the year under review had been stated as Rs. 58,467,100 in the income and expenditure account, a sum of Rs. 763,845 had been overstated and the receivable salary reimbursement of Rs. 4,571,643 for the year under review had been stated as Rs. 4,336,598, thus understating by Rs. 235,045.	The difference is due to the reimbursed amount of widows and orphans fund.	Accuracy should be ensured in accounting.
(d) The advertisement charges of Rs. 281,300 of the year under review had not been stated in the accounts.	Action will be taken to make corrections in the ensuing year.	Accuracy should be ensured in accounting.

1.7 Non-compliance

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, regulations and management decisions etc.	Non-compliance	Comment of the Sabha	Recommendation
(a) Section 132 of the Pradeshiya Sabha Act No.15 of 1987.	Seventy eight plaques had been presented to pay tributes to the retired honourable members on 09 February 2021 spending Rs. 450,080 which is not an activity covered by the referred Section.	It is informed that the approval of honourable Governor has been received for this purpose.	The expenditure covered by Section 132 of the Act should be incurred.
(b) Circular No.2015/01 dated 02 November 2015 of the Commissioner of Local Government, North Western Province.	Without the approval of the Minister, financial assistance of Rs. 100,000 had been provided on a decision of the General Assembly for an alms-giving ceremony conducted on behalf of a chairman of a Pradeshiya Sabha, such expenditure has not been covered by the circular. The assistance had been given outside the jurisdiction of the Pradeshiya Sabha.	Approval of the honourable Governor has been received for the payment.	Action should be taken in accordance with the circular instructions.

1.8 Transactions not confirmed by an adequate authority

Audit Observation	Comment of the Sabha	Recommendation
(a) A sum of Rs. 1,000,000 had been donated to purchase construction materials for the construction of new classroom of the Dambadeniya primary school. The expenditure to be incurred by the expenditure head of Education to develop school classrooms had been incurred by the Sabha funds that had not been covered by the Section 132 of the Pradeshiya Sabha Act and not included in the budget of the year 2021.	This donation of materials was made according to a request of the Principal of the Dambadeniya primary school. It is informed that the approval of the Governor has been received for this purpose.	This is an expenditure to be incurred by the expenditure head of Education and this should be budgeted and expenditure should be incurred in accordance with the circular instructions.

- (b) Without the prior approval of the Governor, a sum of Rs. 1,640,000 had been spent for the purchase of necessary equipment to the intensive care unit of the Dambadeniya Covid ward which is an activity applicable to the expenditure head of Health.
- This donation was made on an urgent need to purchase necessary equipment for the intensive care unit of the Covid ward of the Dambadeniya hospital according to the verbal instructions of the Hon. Governor and the instructions of the Commissioner of Local Government.
- This expenditure is applicable to the expenditure head of Health and expenditure should be incurred by identifying the expenses related to the Pradeshiya Sabha.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 23,636,609 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 18,040,622.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
A balance of Rs. 249,106 from the business place rents and Rs. 576,271 from the tender tax rents as at 31 December of the year under review had not been recovered.	It is informed that action will be taken to recover the arrears.	Arrears should be recovered on time.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha 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 Operating Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
It was observed that action had not been taken to obtain a plot of land for the public purpose from the extent of 3 acres 1 rood and 38 perches of the Kadahapola	It is informed that an extent of 02 acres 03 roods and 10 perches of lands has been partitioned under the phase 02.	Lands should be obtained for public purposes in accordance

Meryland auction under the 04th phase. It is observed that there possibilities to take place undue transactions due to not taking action to plots of land receivable to the Sabha. Roads had not been properly developed by laying tar according to the conditions laid down in approving the plan in the sale of above land by dividing it into parcels and the drainages had been damaged and had filled with soil due to not constructing them according to the prescribed standard and the technical guidance.

with the circular provisions.

3.2 Procurements

3.2.1 Supplies and Services

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) Having selected a private institution for computer networking of the office building and installing the security camera system, an agreement had been entered into for Rs. 1,192,010 on 08 June 2021. An advance of Rs. 382,402 had been paid without obtaining an advance security. Even though this work should have been completed and handed over within a period of one month as per the agreement, due to not completing the work of the second floor, the completion of the activities of the CCTV system was delayed. Nevertheless, Rs. 1,034,661, which is 80 percent of the total contract value had been paid on 09 October 2021 and the Conditions No.1,3 and 6 of the agreement had not been fulfilled.</p>	<p>In taking into account the physical fittings relating to the computer network and the camera system, work at the value of about 80 percent has been completed and it is informed that due to delay in the completion of the constructions of the building attributed to the failure to accomplish the Conditions 1,3 and 6 of the agreement.</p>	<p>Supplies and services should be carried out in accordance with the procurement guidelines.</p>
<p>(b) Without being complied with Guidelines 3:2 and 3:4 of the Procurement Guidelines, an agreement for Rs. 1,635,298 had been reached with an elderly society to hang curtains in the Pradeshiya Sabha building under the direct contract method. Due to awarding this task to a society by selecting a suppliers, the qualified and interested parties had not been given opportunity to participate in the procurement. An advance of Rs. 327,060, that is, 20 percent of the contracted amount had been paid without an advance security. This society had carried out projects such as road concreting and laying interlock blocks and it was questionable in audit as to whether it is possible for a society as mentioned above to carry out a work such as hanging curtains.</p>	<p>In taking into consideration the previous projects done by the societies, this society had executed only the road development projects. But, this society had informed the Hon. Chairman that they have skills in designing curtains. Accordingly, the Hon. Chairman had awarded this project to them based on that belief.</p>	<p>Suppliers should be selected through competitiveness in carrying out supplies and services.</p>

