

Naththandiya pradeshiya sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Naththandiya pradeshiya sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, Statement of Finance Operation, Statement of Net Assets Changes, Cash Flow Statement and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka and with the provisions of the National Audit Act No. 19 of 2018 read in conjunction with the sub section 172(1) of Pradeshiya Sabha Act No. 15 of 1987. 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 financial statements give a true and fair view of the financial position of the naththandiya pradeshiya sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 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 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 Audit Scope (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 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 include 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 of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit observation on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The value of Rs.90,000 land in Kokwalamulla Edmen Peiris which was 01 rude and 24.5 perches and Rs.2,700,000 in Keenakele Lot 5C land which was 02 Rude and 19.8 perches had been under-accounted.	That will be corrected through 2023 financial statements.	Corrections should be made through journal entries.
(b) The value of the Katuneriya library building completed in the year under review was under-accounted by Rs.5,081,338.	-Do-	-Do-
(c) The boundary wall of Naththandiya fair valued at Rs.1,718,431 had not been accounted under fixed assets.	-Do-	-Do-
(d) The expenditure incurred for the air-conditioning of the new pradeshiya sabha building had been under-accounted by Rs.558,934.	-Do-	-Do-

1.7 Non- Compliances

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

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

Reference to Non-compliance Laws, Rules Regulations etc.	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka F R 104(4)	A full report had not been submitted within 03 months regarding the loss of the council cab which met with an accident.	The full report will be submitted as per F R (104) of the investigation report is received immediately.
		Financial regulations should be followed.

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 2022 amounted to Rs.186,267,559 as compared with the excess of revenue over recurrent expenditure amounted to Rs.153,111,736 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Chairman the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sources	2022				2021			
	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 st December	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 st December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
	000'	000'	000'	000'	000'	000'	000'	000'
Rates income	24,587	28,226	21,226	24,389	18,043	18,155	12,869	22,584
Rent income	29,513	24,956	22,920	4,159	29,422	19,964	17,134	4,395
License Fees	5,693	3,257	3,254	3,000	5,741	5,583	5,583	7
Other Revenue	<u>33,751</u>	<u>50,490</u>	<u>50,026</u>	<u>1,006</u>	<u>203,425</u>	<u>203,120</u>	<u>1,658</u>	<u>333,983</u>
Total	<u>93,544</u>	<u>106,929</u>	<u>97,426</u>	<u>32,554</u>	<u>256,631</u>	<u>246,822</u>	<u>37,244</u>	<u>360,969</u>

2.2.2 Performance in Revenue Collection

Audit Observation

- (a) As at 31st of December of the year under review balance of assessment tax is Rs.23,623,184 outstanding acreage tax is Rs.756,967 outstanding stall rent Rs.1,581,865 and outstanding rent is Rs.2,176,803 had not been collected.

Comments of the council

Organizing programs to prohibition of properties and canceling the agreements of stall owners who have not paid arrears of rent.

Recommendation

The outstanding revenue should be collected immediately.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

- (a) Although Rs.400,000 had been spent for obtaining 4000 seed sets for the gardening and 13 members of council had not submitted distribution lists of seed sets.

Comments of the Council

That 05 documents have been received and the members of council have been informed in writing to submit the remaining name list.

Recommendation

Action should be taken to obtain the name list from all the remaining members.

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| (b) | The council had not taken action to take back new lights instead of 423 burnt lights bought from 03 institutions during the given warranty period. | The reminders have been sent to the concerned institution to provide 423 lights. | Action should be taken to take back of lights with warranty to the council. |
| (c) | While using the motor grader and backhoe loader for roads and other works belonging to the council in the years 2021 and 2022, Rs.3,548,088 had been spent for 23,585 liters of fuel for 2483 meter hours, but estimates had not prepared for the works done using motor grader roads and backhoe loader. | Estimates will be prepared and deploying service after obtaining the relevant approval in the future. | The motor grader and backhoe loader should be deployed to service after preparing estimates and getting the relevant approval. |
| (d) | Rs.73,750 had been paid to the supplier for 05 barrels of substandard colas were used . | That the payments had been made after the finance committee gave the approval to pay for the used colas barrels. | They should be handled with due care about their quality when using raw materials. |
| (e) | According to regulation 26(5) of the Extra Ordinary Gazette of the Democratic Socialist Republic of Sri Lanka number 2235/54 dated on 08 th July 2021 and in regulation 24, 25(2), 26(1), 26(3) and 26(4) It has been stated that the funds collected from the said deposits should be used only for providing community, recreational and outdoor spaces and facilities in the relevant urban area, but the council did not use the money worth Rs.9,418,407 for the same purpose. | That such an account is expected to be maintained after obtaining the approval of the Commissioner of Local Government. | Rules should be followed. |
| (f) | By the end of the year under review, the council had not recovered the sum of Rs.450,000 given to 04 persons in the year 2002 for the construction of a Slaughterhouse. Although the Provincial COPA Committee had given instructions on 13 th October 2016 to recover this amount from the officers involved in the relevant task but the council had not taken action to recover it until now. | That the lawsuits are being investigated regarding the 04 persons who obtained money in the year 2002 for the construction of a Slaughterhouse. | Action should be taken to collect the relevant money immediately. |

- (g) 35 lands amounting to 12 acres, 02 rude and 23.81 perches of in the register of long-term fixed assets were not valued and taken into the financial statements. That will be included in the financial statements to 2023. Action should be taken to include the value of land in the financial statements.

3.2 Assets Management

Audit Observation	Comments of the Council	Recommendation
According to Section 127 of the Local Council Act No. 15 of 1987, for the purposes of Section 03 of the Cemeteries and Graveyards Ordinance, although each local council is the competent authority within its boundaries, but the 15 cemeteries considered to belonging to the council area had not been transferred to the council.	That they are working to get recommendations from the Regional Secretariat for taking over.	Action should be taken to take over 15 cemeteries considered to belonging to the council area.

3.3 Procurement Management.

Audit Observation	Comments of the Council	Recommendation
(a) Although 8 air conditioners were installed at a cost of Rs.4,563,344 and the prices for different models of air conditioners were not presented due to the fact that the specifications were not given in the tender documents in the year 2022.	After comparing the prices obtained from one of the suppliers with the prices of the contractor, the contract was awarded to the concerned company and the works were carried out.	The tender documents should be prepared so that the prices for different models of air conditioners can be quoted in the tender documents.
(b) Due to preparation of tender documents without mentioning sufficient details regarding the goods (only INVERTER TYPE) in the bid documents while calling the prices, the selected supplier was installed different air conditioners of INVERTER types without installing one type of air conditioners.	That the price list issued by the North West Provincial Chief Office was used as such for the estimate and the price sheets were issued to the registered contractors.	The bid documents should be prepared at the time of inviting bids and the bid documents should have sufficient details regarding the goods.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) There was a shortage of 56 employees and a surplus of 26 employees.	That requests for recruitment to approved posts have not been received till now.	Action should be taken to fill the relevant vacancies in a formal manner.

- (b) A balance of Rs.589,454 should have been collected as employee loan from 33 employees who had transferred and left from the service. That the loans of those who left the service cannot be recovered and that the remaining balances will be collected in the future. The receivable employee loan balances should be collected immediately.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

According to Section 40 of the National Audit Act No. 19 of 2018 and F.R. 133(1), internal audit is a process that supports the improvement of the operational process of the institution and its performance, but the internal audit of the council had focused only on vouching, leave and examination of files of industry sector.

Comments of the Council

The internal audit will be strengthened by overcoming the weaknesses in the internal audit in the year 2022.

Recommendation

Action should be taken to implement adequate internal audit to achieve the objectives of the organization.

4.2 Budget Control

Audit Observation

Although the entire allocation was not utilized to achieve the respective objectives during the year under review in relation to 106 expenditure heads of Rs.34,240,834 had been allocated in the Annual Budget Estimates.

Comments of the Council

That agreed with the facts presented.

Recommendation

Action should be taken to use a more realistic methodology while preparing estimates.

4.3 Sustainable Developments goals

Audit Observation

Attention had been paid to fulfill 07 sustainable development goals and for that purpose Rs.69,885,469 had been spent in the year 2022.

Comments of the Council

That agreed with the facts presented.

Recommendation

Action should be taken to reach sustainable development goals and targets.