

## **Naula pradeshiya sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Naula pradeshiya sabha including the financial statements for the year ended 31 December 2022 comprising the Balance sheet as at 31 December 2022, Income and Expenditure account, 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 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 Naula 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 Sabha	Recommendation
(a) In the year under review paid Rs.43,759 on 4 times related to the previous year, had been accounted as expenditure in the year under review.	That will be corrected by journal in preparing the financial statements 2023.	Expenditures should be identified and accounted
(b) Rs.97,689 paid on 04 occasions in the year 2023 related to the year under review had not been accounted as an expense in the year under review.	That will be corrected by journal in preparing the financial statements 2023.	-Do-
(c) According to the bill value of the Uda Aswedduma road development project Rs.227,968 should be paid to the contractor but it was stated as Rs.250,286 under creditors, so Rs.22,318 had been overstated.	That will be corrected in the future.	Payable expenditures should be identified and accounted

## 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There were differences of total Rs.1,164,020 between the balances stated in the schedules related to 5 accounting heads stated in the financial statements.	That will be corrected by journal in preparing the financial statements 2023.	The account balances should be corrected.

## 1.7 Non- Compliances

### Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Parliament Acts			
(i) Section 20 of the Assessment and Valuation Ordinance No. 30 of 1946	The assessable property in the sabha area had not been valued after the year 2011.	A new valuation had not been done and a new valuation will be done in the future.	The provisions of the act should be followed.
(ii) Section 83(1) of Urban Development Authority Act No. 41 of 1978 published in the Special Gazette of the Democratic Socialist Republic of Sri Lanka No. 2235/54 dated 08 <sup>th</sup> of July 2021.	Rs.100 had not been charged per day from 20 parties for staying without obtaining certificate of compliance.	They were informed by letters to pay fees and obtain certificate of compliance from the date of residence.	The provisions of the Act should be followed.
(b) Rules 1988 Pradeshiya Sabha (Finance and Administration) Rules 61	, An informal method had been followed for documenting the billings at the time of charging the license fees without recording them in the P.S. 26 A	The documents will be prepared according to PS26 form and to the information in the survey report.	Rules should be followed.

document according to the conducted a license survey and the information in the survey report.

(c) Circular

Central Province Local Government Commissioner's Circular No. 2014/02 dated 20 March 2014 Paragraph 3	Although instructions were given that 50 percent of the total recurrent expenditure should be used for the repair and maintenance of road buildings and fixed assets, and less than 35 percent of the recurrent expenditure that is Rs.9,043,500, had been allocated from the budget.	That a significant percentage is allocated for the repair and maintenance of roads, buildings and fixed assets.	Circular instructions should be followed.
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**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.1,695,089 as compared with the excess of revenue over recurrent expenditure amounted to Rs.5,177,734 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 <sup>st</sup> December	Estimated revenue	Billed revenue	Collected revenue	Total arrears as at 31 <sup>st</sup> December
	Rs	Rs	(Rs)	Rs	Rs	Rs	Rs	Rs
(i) Rates tax	1,697,527	1,638,913	1,695,172	2,229,307	1,631,550	1,535,232	1,494,330	2,285,566
(ii) Rent income	2,714,200	2,161,930	2,266,710	775,155	3,819,000	2,206,768	1,970,563	879,935
(iii) License Fees	1,770,000	1,461,000	1,461,000	-	1,495,200	1,436,085	1,436,085	-
(iv) Other Revenue	17,613,000	834,429	9,698,851	6,665,914	13,895,500	14,376,380	11,394,789	8,541,150
<b>Total</b>	23,794,727	6,096,272	15,121,733	9,670,376	20,841,250	19,554,465	16,295,767	11,706,651

### 2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the council are given below.

Audit Observation	Comments of the Sabha	Recommendation
<p><b>(a) Rates and Taxes</b></p> <p>The outstanding rates amount of Rs.677,683 from 73 rates units exceeding the outstanding rates balance of a unit exceeded Rs.5,000 for a period of 1 to 5 years have not been charged.</p>	<p>That the arrears will be charged.</p>	<p>The arrears should be charged according to the Act.</p>
<p><b>(b) Rent</b></p> <p>An old government house belonging to the Naula Divisional Secretarial office which was named Sathipola No. 10 shop room had been leased by the council to a external person on 17<sup>th</sup> of March 2009 on a monthly rent of Rs.1,000 each and the rent due on 31<sup>st</sup> December of the year under review was Rs.82,840.</p>	<p>That the necessary actions are taken to settle the ownership.</p>	<p>Action should be taken to settle the ownership.</p>

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

Court fines that should have been received from the Chief Secretary of the Central Province and other authorities on 31<sup>st</sup> of December 2022 were Rs.497,980 and stamp duty were Rs.4,644,000. That the schedules relating to stamp duty and court fines have been send to the institutes. Stamp duty and court fines should be collected.

**3. Operational Review**

**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The total of 3 receivable accounts balances as on the last day of the year under review was Rs.1,913,467.	That the receivable account balances collected in the future.	The outstanding balances should be collected.
(b) The total of 2 payable accounts balances as on the last day of the year under review was Rs.16,590,626.	That will be paid in the future.	The payable balances should be settled.
(c) The places where three-wheelers should be parked and the maximum number of three-wheelers to be parked in each place in sabha area had not been decided by the council and it had not been published in a gazette according to the terms of section 4(1) of the by-laws regarding the parking of three-wheelers of the Local Authorities (Standard Bye-laws) Act No. 06 of 1952 published in the Special Gazette of the Democratic Socialist	Gazetteing had not been done due to the problems of road reservation and that it will be gazetted in the future.	Provisions of the act should be followed.

Republic of Sri Lanka No.  
1955/7 dated 23 February  
2016.

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| (d) | 13 stalls in central market had been given for business activities without entering into an agreement. | That these stalls were closed due to the epidemic situation and the economic crisis in the country. | Action should be taken to an agreement formally. |
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### 3.2 Non-fulfilment of objectives

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Although the leased stalls cannot be closed without using them for the relevant business activities and 4 stalls had been closed by the lessees who took the lease.	As the rent payment is continues, re-survey will be done regarding those stalls and further action will be taken.	The leased stalls should be used for business activities.

### 3.3 Assets Management

#### 3.3.1 Unclaimed Assets

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Total Rs.199,000,000 of 17 lands had not been taken over.	Actions have been taken to obtain deeds or transfer orders, and that they will be done in the future.	Action should be taken to take over the ownership of the lands.

#### 3.3.2 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
19 lands and buildings worth Rs.43,453,000 remained idle for between 1 and 16 years.	That it will be used according to the needs for public affairs.	The lands should be utilized.



**4. Accountability and Good Governance.**  
**Budget Control**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
According to the budget prepared for the year under review, the estimated income and expenditure in comparison with the actual income and expenditure vary from 36 percent to 96 percent of the estimated income related to 11 revenue heads and from 38 percent to 99 percent of the net allocation of 29 expenditure heads. It was observed that the total Rs.85,727,500 of 35 expenditure heads total net provision had been left without spent.	That estimates revenue will be collected in the next years.	The budget should be prepared considering the need with attention and care.