

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of Namaloya Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of Financial Operations, and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 reported 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 Namaloya Pradeshiya Sabha as at 31 December 2023, and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles for the Local Government.

**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 (SLAuS). 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 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 Audit Scope (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:

- Appropriate audit procedures were designed and performed to identify and assess the risk 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department'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 preparation of financial statements

### 1.6.1 Accounting policies

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
Note on the accounting policies or generally accepted principles that were used in preparing the financial statements, had not been provided together with the financial statements.	Action will be taken to present together with the 2024 financial statements.	Accounting policies should be presented together with the financial statements.

### 1.6.2 Accounting Deficiencies

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Retention Money Rs. 602,566 to be paid by 31 December in the year under review related to two projects, had been overstated under development creditor.	Accepted That action will be taken to correct the mistake when preparing the financial statements for the year 2024.	Should be accounted correctly.
(b) The value of the digital scales that had been purchased for Rs. 126,900 under Local Development Support Project, had not been capitalized.	- do -	- do -
(c) Recurrent revenue balance totaling to Rs. 466,203 for the year ended 31 December in the year under review, had been understated.	- do -	- do -
(d) A revenue amounting to Rs. 158, 550 collected under renting of right to sales (mobile) had not been accounted as revenue in the year under review.	- do -	- do -

### 1.6.3 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
As per the schedules presented together with financial statements as at 31 December of the year under review, there was a difference of Rs. 4,367,906 in the development creditor balance as per the schedules and that balance as per financial statements.	Accepted. That action will be taken to correct the mistake when preparing the financial statements for the year 2024.	Action should be taken to correct the mistakes by finding reasons for such non-reconciliations.

### 1.6.4 Non-existence of written evidence for the audit

Subject	Amount Rs.	Non-supplied audit evidence	Comments of the Council	Recommendation
(a) Motor vehicles and Carts	57,746,639	(i) Updated fixed assets register.	That a corrected fixed assets register will be presented in the year 2024.2024	Evidence proving accounts balances stated in the financial statements should be presented
(b) Machines and equipment.	52,464,256	(i) Updated fixed assets register.  (ii) Schedules	- Do -	- Do -
(c) Furniture and fittings.	5,936,036	(i) Updated fixed assets register.  (ii) Schedules	- Do -	- Do -
(d) Outstanding license fees.	22,505	(i) Schedules (ii) Verification of balances.	That the schedules following their preparation will be presented when preparing the 2024 accounts.	Action should be taken to settle the balances.

## 1.7 Non-compliance

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

The instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations and management decisions.	Non-compliance	Comments of the Council	Recommendation
(a) Employees Provident Fund Act No 15 of 1958 and Employees Trust Fund Act No 1980.	Employees Provident Fund money amounting to Rs.37, 568 and Employees Trust Fund money amounting to Rs.6,000 had been under calculated related to the year under review and sent to the Funds due to calculation being done based on the basic salary although the contributions should have been calculated based on the gross salary.	That action will be taken to correct them in the year 2024.	Action should be taken as per the provision mentioned in the Act.
(b) Pradeshiya Sabha Rules 1988(Financial and Administration)			
(i) Rule 5(12)	Action had not been taken to obtain sufficient security from the officers responsible for stores and financial affairs.	Security had been obtained from one officer and action will be taken to obtain security from other officers.	Action should be taken as per financial and administrative rules.
(ii) Rules 59 and 67	Although the Revenue Inspector of the Council should conduct a survey within the precincts of the Council, prepare a list of business places and industries and present it to the Secretary of the Council before 31 March each year, no such action had been taken.	That action would be taken to correct it in the year 2024.	- Do -
(iii) Rule 218	Although all lands and buildings in the possession of the Council should be checked at least once year; no such action had been taken.	- Do -	- Do -

## 2. Financial Review

### 2.1 Financial Results

According to the presented financial statements, the income exceeding the recurrent expenditure of the council for the year ending December 31, 2023 was Rs.3,095,029, and correspondingly, the expenditure exceeding the recurring income of the previous year was Rs.40,005.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Information on the estimated revenue, billed revenue, collected revenue and outstanding revenue is as follows as per the information provided by the Chairman.

Source of revenue	2023				2022			
	Estimated revenue	Billed revenue	Collected Revenue	Total Deficit as at 31 December	Estimated revenue	Billed revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
i. Rates and Tax	350,000	754,553	583,018	585,538	350,000	161,500	161,500	414,003
ii. Rent	4,173,540	1,620,640	1,619,990	3,750	4,173,540	1,859,264	1,878,272	3,100
iii. License fees	837,000	546,550	546,550	22,505	837,000	393,945	393,945	22,505
iv. Other Revenue	1,547,000	3,387,221	3,387,221	15,008	3,425,505	1,563,614	1,563,614	15,008
Total	<u>6,907,540</u>	<u>6,308,964</u>	<u>6,136,779</u>	<u>626,801</u>	<u>8,786,045</u>	<u>3,978,323</u>	<u>3,997,331</u>	<u>454,616</u>

#### 2.2.2 Performance of Revenue Collection

##### Audit Observation

The outstanding advertising hoarding revenue stood at Rs.585,538 as at 31 December in the year under review, and action had not been taken to recover those fees or to remove the hoardings.

##### Comments of the Council

That action will be taken to remove the advertising hoardings in the event of such fees not being paid.

##### Recommendation

Action should be taken to recover the fees or to remove the advertising hoardings.

## 3. Operational Review

### 3.1 Performing tasks assigned by the Act

Controlling and sorting out issues related to public health, public utility services and public roads under section 3 of the Pradeshiya Sabha Act and the facts observed in performing tasks which were to be carried out by the Council such as ensuring wellbeing and comfort and welfare of the public are as follows.

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
No action had been taken to identify the instances in respect of which bylaws should be imposed under section 126 of the Pradeshiya Sbha Act and only 05 bylaws had been imposed by 31 December 2023.	Action will be taken accordingly in the future.	Activities should be made legal by imposing bylaws.

### **3.2 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) In the year 2023, the council had collected 186 tons of garbage at a cost of Rs.1,095,975 and by using the decomposable garbage, it had produced 5441 kg of compost and sold 4366 kg and collected an income of only Rs.87,321.	That action will be taken to prepare a system to raise the use of compost manure in the year 2024.	A system should be prepared to raise the manufacture and sale of compost.
(b) It was observed at the physical inspection that 21.3 ton of non-biodegradable garbage collected monthly is openly dumped and burnt in the waste yard, and no attention had been paid by the Council towards a non-biodegradable garbage recycling system.	That action will be taken to implement a non-biodegradable garbage recycling system in the next year.	Non-biodegradable garbage recycling system should be prepared and implemented.
(c) Machinery and equipment worth Rs. 3,388,674 purchased for the implementation of the programme by the Pradeshiya Sabha under Local Development Support Project to produce animal foods and eggs using grain and grain based products, had been stored without being used for more than 08 months, and 08 months of the guarantee period of them had already elapsed.	That this situation was caused due to the delay of receiving the relevant financial provision of the LDSP PT – 02 project and that the construction works have begun by now.	The building should be renovated swiftly and machinery and equipment should be made use of.

### **3.3 Idle or underutilized property, plant and equipment**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
It was observed that 03 non-repairable vehicles have been lying idle from 07 to 23 years, and they were observed to have been decaying due to non-taking of action to auction them.	That it is not possible to auction the vehicles due to these vehicles have not been transferred in the name of the Pradeshiya Sabha.	Action should be taken to take over possession of Vehicles and auction them.

### 3.4 Assets managements

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The value of the printer granted to the Pradeshiya Sabha by the Office of the Deputy Director of Agriculture in Ampara, had not been identified and accounted.	That action will be taken to correct the mistakes in the year.	The value should be identified and accounted.
(b) Although the value of the buildings belonging to the Pradeshiya Sabha had been identified and accounted, the value of the lands wherein those buildings located had not been identified and accounted.	That action will be taken to account that value in the future.	- Do -
(c) The value of 15 cemeteries and 07 playgrounds belonging to the Pradheshiya Sabha had not been identified, documented and accounted.	- Do -	- Do -
(d) The value of the tractor trailer in the possession of Pradeshiya Sabha had not been identified and accounted.	Action will be taken in the next year to prepare the accounts including the expenses incurred for the repair of the tractor trailer.	- Do -
(e) Action had not been taken to repair and use 07 vehicle items which were in the condition of being repaired and used.	That action will be taken to repair those vehicles following the receipt of the inspection report of the Mechanical Engineer.	Action should be taken to immediately repair and use.
(f) Action had not been taken by the Council to transfer ownership of 05 vehicles belonging to it in the name of Council.	Even though requests have been made, action have not been taken to transfer them to us.	Action should be taken to transfer the ownership of vehicles in the name of the Council.

### 3.5 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
08 posts were vacant by the end of the year under review.	That this has been informed to the local Government Commissioner through monthly reports.	Required measures should be taken to fill the vacancies.



#### 4. Accountability and good Governance

##### 4.1 Internal Audit

###### **Audit observation**

No adequate recommendations had been made implemented for improvement of corporate operational processes upgrade performance covering all the functions of the council through the audit in terms of the Section 40 of the National Audit Act No. 19 of 2018 and 133(1) of the Financial Regulations.

###### **Comments of the Council**

That action will be taken in future to correct them.

###### **Recommendation**

Internal audit activities should be carried out covering all activities of the Institution.

##### 4.2 Audit Committee

###### **Audit Observation**

As per the Internal Audit Circular No DMA/01–2019 dated 12 January 2019, the Council had not taken steps to establish Audit and Management Committees and conduct committee meetings.

###### **Comments of the Council**

That action will be taken to correct it in the future.

###### **Recommendation**

Action should be taken to start Procedures for Audit and Management Committees and conduct meetings.