

## **Nuwaragam Palatha Central Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of Nuwaragam Palatha Central Pradeshiya Sabha for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023 and the statement of comprehensive income, statement of changes in Net assets / Equity 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 accompanying financial statements give a true and fair view of the financial position of Nuwaragam Palatha Central Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows 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 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 Standard for Local 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 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 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 are 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 include 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 related to the preparation of financial statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Depreciation amounting to Rs.43,834 had not been recognized for the year 2023 for the waste grinding station valued at Rs.1,844,420 and water tank.	Accepted.	The accurate value should be accounted.
(b) Even though only the work amounting to Rs.793,804 of the maternity clinic building that had been constructed had been certified as at 31 December of the year under review, the assets had been increased by Rs.543,519 due to the capitalization of the assets totalling to Rs.1,337,323.	-Do-	-Do-
(c) Capital grants had been increased by Rs.566,980 due to crediting of the capital grants, amounting to Rs.283,490 received in the year 2021 for the construction of roads by using interlock paving blocks, to the capital grants account again, without correcting the mistake of double counting of capital grants.	-Do-	-Do-
(d) Although the value of the stock of street lights had been Rs.101,942 as at 31 December 2023, it had been overstated as Rs.129,000.	-Do-	-Do-

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| (e) | A fixed deposit account belonging to the Sabha had been accounted on cash basis and the interest of Rs.34,964 related to the period from 18 June 2023 to 31 December 2023 had not been accounted, and the interest Rs.40,362 to be received for the year 2024 related to a fixed deposit had been accounted as a revenue in the year under review. | -Do- | -Do-                                    |
| (f) | Recurrent expenditure amounting to Rs.71,300 received from the LDSP project for cleaning activities of the tube well of the Waste Management Centre had been double accounted in the capital grants.   | -Do- | The accurate value should be accounted. |
| (g) | In an instance, where payments had not been made to the Public Service Provident Fund in the year 2023, a sum of Rs.785,218 had been indicated as payments without indicating it as accrued expenses.  | -Do- | -Do-                                    |

#### 1.6.2 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Although the purchases in the year 2023 had been Rs.832,800 according to the inventory of street lamps, the purchases had been Rs.789,630 according to the LG 13 report. Therefore, there was a difference of Rs.43,170.	Accepted.	The reasons for the difference should be found and corrected.
(b) Although the general inventory balance indicated in the notes to the financial statements had been Rs.168,249, it had been Rs.152,949 as per the general inventory, and therefore, there had been a difference of Rs.15,300.	-Do-	-Do-
(c) Although the payments made to the Public Service Provident Fund in the year 2023 had been Rs.653,164 according to the schedule, it had been indicated as Rs.785,218 according to the ledger accounts. As a result, there was a difference of Rs.132,054.	-Do-	-Do-

### 1.6.3 Lack of Written Evidence for Audit

	Subject	Amount	Audit Evidence not Provided	Comments of the Sabha	Recommendation
		<b>Rs.</b>			
(a)	Lands owned by the Pradeshiya Sabha	90,960,000	(i) Transfer certificates substantiating the land ownership (ii) Deeds (iii) Land Survey Reports	Accepted.	Confirmations should be submitted.
(b)	Employee Loans	1,129,813	(i) Schedule	Accepted.	Confirmations should be submitted.
(c)	Amount payable to Public Service Provident Fund	1,520,745	(i) Schedule	-Do-	-Do-

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the expenditure, which had exceeded the revenue of the Pradeshiya Sabha for the year ended 31 December 2023 had been Rs.699,149 and corresponding to that, the expenditure, which had exceeded the revenue in the previous year had been Rs.5,616,894.

### 2.2 Revenue Administration

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

According to the information submitted by the Secretary of the Sabha, information related to the estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year are mentioned below.

Revenue Source	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 Taxes	3,068,000	4,374,187	4,294,437	794,834	2,249,224	2,401,534	1,790,450	715,084
(ii) Rents	9,148,384	7,187,603	7,274,603	1,470,809	7,550,236	6,476,026	6,385,414	1,557,809
(iii) License Charges	1,242,200	1,192,300	2,856,400	381,450	6,156,600	6,144,636	5,912,336	2,045,550
(iv) Other Revenue	37,810,917	27,066,643	22,781,237	30,229,344	30,974,200	17,284,759	11,186,184	25,943,938
	51,269,501	39,820,733	37,206,677	32,876,437	46,930,260	32,306,955	25,274,384	30,262,381

## 2.2.2 Performance in the Collection of Revenue

The observations in relation to the performance in the collection of revenue in the Pradeshiya Sabha are mentioned below.

Audit Observation	Comments of the Sabha	Recommendation
(a) <b>Rates and Taxes</b>		
(i) Even though the arrears of business tax and industrial tax, which remained as Rs.254,700 as at 01 January of the year under review, had been increased by 144 percent up to Rs.622,250 as at 31 December of the year under review, necessary action had not been taken to recover it.	Action will be taken to recover the revenue arrears.	Revenue arrears should be recovered promptly.
(ii) A sum of Rs.1,823,550 to be received for the collection of garbage tax in the limits of the Pradeshiya Sabha had not been recovered even during the year under review.	-Do-	-Do-
(iii) A sum of Rs.204,600, which was the 50 percent of the garbage tax of Rs.409,400 billed in relation to the year under review for household units, had only been collected.	-Do-	Collection of current revenue should be expedited.

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| (iv) | Only a sum of Rs.70,600, out of the arrears of garbage charges amounting to Rs.233,600 existed before the year 2023, had been collected in the year under review. Accordingly, 70 percent of the outstanding garbage charges had not been collected. | -Do-  | Revenue arrears should be recovered promptly. |
| <br> |  |   |   |
| (b)  | <b>Rents</b><br><br>A sum of Rs. 1,445,809 to be received for leasing out of meat shops, fish stalls and weekly fair had not been recovered even by 31 December of the year under review.  | A sum of Rs.25,000 has been recovered in relation to the meat shops and legal cases have been filed to recover the remaining arrears. | -Do-  |
| <br> |  |   |   |
| (c)  | <b>License Charges</b>   |   |   |
| (i)  | A sum of Rs.46,750 to be recovered for trade licenses had not been collected even by 31 December of the year under review.   | Action will be taken to recover.  | Action should be taken to recover.            |
| (ii) | License fees of 01 percent, which should be charged for the annual income of a hotel located in the limits of the Pradeshiya Sabha and registered with the Tourism Board, had not been collected.  | -Do-  | -Do-  |
| <br> |  |   |   |
| (d)  | <b>Other Revenue</b>   |   |   |
| (i)  | A sum of Rs.334,700 to be recovered for bill-boards had not been recovered even by 31 December of the year under review.   | -Do-  | Action should be taken to recover.            |
| (ii) | Court fines receivable from the Chief Secretary of the Provincial Council and other authorities on 31 December 2023 amounting to Rs.2,920,589 and stamp duty amounting to Rs.25,484,455 had not been collected.                                      | Requests had been made obtain court fines and stamp duty.   | -Do-  |

### 3. Operational Review

#### 3.1 Performance of Functions Assigned by the Act

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, 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 and all amenities within such area, are mentioned below.

**Audit Observation**

Even though by-laws could have been enacted under Section 126 of the Pradeshiya Sabhas Act to fulfill 30 major matters, By-laws had not been enacted for those matters even by 31 December 2023.

**Comments of the Sabha**

Will proceed in this regard.

**Recommendation**

Action should be taken to enact the By-laws.

**3.2 Deficiencies in Contract Administration****Audit Observation**

Even though a sum of Rs.10,000,000 had been allocated for repairing and maintenance activities of roads, culverts, bridges in the year 2023, only a sum of Rs.3,657,606, out of that, had been spent in the year under review to repair gravel roads. It was as lower as 37 percent of the estimate.

**Comments of the Sabha**

It could not be accomplished due to the delay in obtaining the approval of the Governor.

**Recommendation**

Action should be taken to implement the estimated projects within the respective year itself.

**4. Accountability and Good Governance****4.1. Annual Action Plan****Audit Observation**

A sum of Rs.8,025,000, which was 85 percent of the total allocation of Rs.9,475,000 under welfare payments according to the action plan for the year 2023, had only been mentioned as other welfare expenses, and those tasks had not been specifically identified.

**Comments of the Sabha**

Action will be taken in the future as per the action plan.

**Recommendation**

Action should be taken as per the action plan.

**4.2 Environmental Issues****Audit Observation**

Action had not been taken even in the year under review to obtain an environmental license from the Central Environment Authority for the waste management centre, where recycling of solid waste is carried out, located in Lolugaswewa.

**Comments of the Sabha**

The charges have been paid and that the environmental protection license will be obtained in the year 2024.

**Recommendation**

Obtaining environmental licenses should be expedited.