

## **Narammala Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Narammala Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, and statement of financial operations, statement of changes in equity, 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 Sub-section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the Provisions of the National Audit Act No. 19 of 2018. 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 Narammala Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices .

#### **1.2. Basis for Qualified Opinion**

I express qualified opinion in respect of financial statements 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 Sri Lanka Public Sector Accounting Standards, 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 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 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 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 Deficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) A value of Rs 28,356,503 relating to 05 fixed asset balances had not been capitalized as at 31 December of the year under review.	Accept.	It should be accurately accounted for.
(b) Due to the value of issuance by the warehouse during the year under review was Rs. 6,093,053 , was not credited to the stores account the inventory balance had been overstated and the supply equipment expense balance understated by that value.	-do-	-do-
(c) A sum of Rs.37,125 receivable from shops as at 31 December of the year under review had not been included in the financial statements.	Accept.	It should be accurately accounted for.
(d) There were 04 pending cases related to the Sabha, for which Rs.29,000 had been spent from the Sabha Fund. Details of these cases had not been disclosed in the financial statements.	-do-	Contingent liabilities should be disclosed in the financial statements.

## 1.6.2 Unreconciled Control Accounts

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
There was a difference of Rs. 458,306 between the total balance of 05 accounting items shown in the financial statements as at 31 December of the year under review and the total balance of the respective schedules.	Agree with the observation.	It should be accurately accounted for.

## 1.6.3 Lack of Written Evidence for Audit

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
Land and buildings which have not been ascertained precisely amounted to Rs.7,062,262 had been removed by 31 journal entries from account and contribution from revenue to capital application account.	Agree with the observation.	It should be accurately accounted for.

## 1.7 Non-compliance

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decision

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

<b>Reference to Laws, Rules, Regulations, Management Decisions etc.</b>	<b>Non-compliance</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
F.R. 571	Actions should be taken in respect of 514 lapsed deposits valued at Rs.8,691,018 in terms of Financial Regulation 571 .	Agree with the observation	Actions should be taken in terms of Financial Regulations.

<b>(b)</b>	Public Administration Circular No. 02/2018 dated 24 January 2018			
<b>(i)</b>	Section 6.3	Although achievement of unique competency goals had been suggested for each level of the hierarchy attention was not paid on it.	-do-	Actions should be taken as per circulars.
<b>(ii)</b>	Section 6.5	Although the Human Resource Development Plan should be updated at least once every 02 years it had not been so done.	-do-	-do-
<b>(c)</b>	Pradeshiya Sabha (Financial and Administrative) Rules 1988			
<b>(i)</b>	Rule 33	Although a list of rates defaulters and a distress warrant of property shall be prepared by the Assessment Clerk at the end of each quarter and submitted for the signature of the Chairman, it had not been so done.	Accept.	Actions should be taken as per instructions of the Rules.
<b>(ii)</b>	Rule 59	Although a list of projects shall be prepared and submitted to the Secretary of the Sabha on or before the 31 March of every year, it had not been done in relation to the year 2023 .	Accept.	Actions should be taken as per instructions of the Rules.
<b>(iii)</b>	Rule 61	Although all the projects included in the list obtained after conducting an annual survey should be included in the register of project taxes, only the businesses that pay fees had been arranged to be included in the register. It was not included about the non-taxable projects in the registers and no legal	-do-	-do-

actions had been taken in this regard.

(iv)	Rule 218	Although an annual survey of land and buildings was supposed to be done by a board appointed under the rule, it had not been so done.	-do-	-do-
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## 2. Financial Review

### 2.1 Financial Results

As per the financial statements presented, revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2023 was Rs. 38,623,618 and as correspondence revenue that exceeded the recurrent expenditure of the preceding year was Rs. 23,131,722 .

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

As per the information presented by the Secretary , the details about the estimated revenue, billed revenue, collected revenue and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	Year 2023				Year 2022				
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December (from Billed Revenue)	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December ) from Billed Revenue)	
	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.	Rs000.
Rates and Taxes	11,753	11,763	11,763	2,583	12,796	17,790	12,159	5,631	
Rents	19,520	27,657	27,629	246	26,457	24,774	24,032	742	
License Fees	250	302	302	-	1,163	1,852	1,852	-	
Other Income	50,877	51,178	51,178	-	31,296	74,513	44,663	29,850	
<b>Total</b>	<b>82,400</b>	<b>90,900</b>	<b>90,872</b>	<b>2,829</b>	<b>71,712</b>	<b>118,929</b>	<b>82,706</b>	<b>31,123</b>	

## 2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Secretary	Recommendation
(a) Although the rates should be done once in 5 years with the Valuation Department, the last time an assessment of rates was made by the Pradeshiya Sabha in the year 2015. Due to not conducting an assessment once in 05 years, the Sabha had lost an incalculable amount of income due to the change in the present condition of the properties.	Agree with the observation.	Rates assessment should be done on time and arrangements should be made for revenue generation.
(b) There was a balance of arrears of rates amounting to Rs.4,766,916 as at 31 December of the year under review.	-do-	Actions should be taken to recover the arrears of rates promptly.
(c) Three shops, one shop each at public market , new market and bus stand had not been leased out during the year.	-do-	Shops should be provided by tender.
(d) The arrears of rent income of 149 shops as at 31 December of the year under review was Rs 344,086.	-do-	Actions should be taken to recover the arrears of shop rent.
(e) There was an arrears of tender rent amounting to Rs.576,272 of the Sabha as at 31 December of the year under review .	-do-	Actions should be taken to recover the arrears of tender rent.
(f) Progress in obtaining compliance certificates was minimal as compared to the building permits obtained in the previous 05 years. The Sabha had lost a revenue to be received to the Sabha due to failure to follow up on obtaining compliance certificates.	Agree with the observation.	Revenue should be properly collected.
(g) Court fines amounting to Rs. 10,364,213 and stamp duty of Rs. 26,880,000 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2023 .	-do-	Actions should be taken to collect money.

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a) The value of 10 accounts receivable as at 31 December of the year under review was Rs 57,370,567.	Agree with the observation	The balance receivable to the Sabha should be recovered promptly.
(b) The total value of 09 accounts balances payable as at 31 December of the year under review was Rs 29,555,936.	-do-	Balances payable should be settled .
(c) There was a total outstanding loan balance of Rs 560,069 from 07 employees who had retired and left the service at the end of the year under review.	-do-	Employee loans should be recovered in a formal manner.

#### 3.2 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
The number of vacancies in the approved cadre of the Sabha was 12 and the 25 excess staff as at the end of the year under review.	Agree with the observation.	The staff requirement should be reviewed periodically.

#### 3.3 Idle or Underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a) The Ambagammana school premises owned by the Sabha and the old Sabha office building had remained unused for 13 years and 2 years respectively.	Agree with the observation.	Actions should be taken to utilize the idle assets.
(b) Although a set of equipment used for the repair of tube wells had been obtained for 25,185 in the year 2021, the set of equipment had remained underutilized.	-do-	-do-



### 3.4 Assets Management

Audit Observation	Comments of the Secretary	Recommendation
(a) The street lamps were not formally numbered and documented and all had not been entered into the data system.	Agree with the observation	Fixed asset records should be maintained up to date.
(b) The value of 141 items belonging to 36 types of equipment and the value of 05 lands owned by the Sabha had not been assessed and not recognized in the financial statements.	-do-	-do-
(c) The information about the location of tube wells owned by the Sabha, operation of tube wells, maintenance and stewardship was not kept up to date.	Agree with the observation	Fixed asset records should be maintained up to date
(d) The ownership of the lands of Dambadeniya Satipola and Dambadeniya Preschool and Library, Dambadeniya Bungalow Auction Land, Dalikanu Anga Clinic Center Land, Oliadeniya Solid Waste Center and Cemetery, Kaptura Land Plot No. 12, Ambagamma Sub office Land and the old Pradeshiya Sabha land used by the Sabha had not been transferred to the Sabha.	Agree with the observation.	Actions should be taken to formally transfer the ownership of lands to the Sabha.

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

Audit Observation	Comments of the Secretary	Recommendation
There was a variation of 27 to 90 per cent between estimated and actual income in 04 revenue items and more than 47 per cent variation between estimated provision and actual expenditure in 04 expenditure items.	Agree with the observation	The Budget should be prepared making a forecast regarding income and expenses at the beginning of the year.