

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Naththandiya 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 net assets 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 Sbha 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 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 Naththandiya Pradeshiya Sabha as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

**1.2 Basis for Qualified Opinion**

My opinion is qualified based on 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 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 the Generally Accepted Accounting Principles and for such internal control as management determines 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 Pradeshiy sabha's financial reporting process.

As per Section 16(1) of 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 Sabha.

#### **1.4 Scope of Audit (Auditor's Responsibilities 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 judgement and maintain professional skepticism throughout the audit. I also

- Appropriate audit procedure were designed and performed identify and assess the risks 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pradeshiya Sabha'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 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 discussions issued by the governing body of 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 the other legal requirements

The special provisions had been inserted in the National Audit Act No.19 of 2018 in relation to the under-mentioned requirements.

- (a) The financial statements of the pradeshiya sabha are consistent with the preceding year as per the requirement of the section 6(1)(d)(iii) of the National Audit act No. 19 of 2018 .
- (b) The recommendations made by me in the preceding year as per the requirement indicated in the section 6(1)(d)(iv) of the National Audit act No. 19 of 2018 had been included in the financial statements forwarded.

## 1.6 Audit Observations on preparation of the Financial statements

### 1.6.1 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a)	Stamp Duty of Rs. 91,861,941 to be charged as at 31 December of the year under review had been understated.	The action will be taken to rectify through the financial statements 2024.	The action should be taken to rectify through the journal notes.
(b)	The assets worth of Rs. 277,000 had not been accounted under fixed assets.	Do	Do
(c)	Even though the receivable capital aids was Rs. 6,080,384, it had been overstated as Rs.11, 263,700.	Do	Do
(d)	The constructions worth of Rs. 2,297,365 had not been accounted under the fixed assets.	Do	Do
(e)	An amount of Rs. 7,956,416 which had to be credited to capital aids account had been credited to outstanding other income account.	Do	Do

## 1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comments of Secretary	Recommendation
06 accounts subjects aggregate of Rs. 1,938,430 couldn't be satisfactorily examined in the audit due to non-submission of the required information.	Since the account balances were accurate, the action will be taken to rectify the schedules.	The action should be taken to rectify the schedules.

## 2. Financial Review

### 2.1 Financial Results

As per the financial statements submitted, the income exceeding the current expenditure of the sabha was Rs. 166,177,531 for the year ended 31 December 2023 and correspondingly, the income exceeding the current expenditure was Rs. 186,267,559 in the preceding year.

### 2.2 Income Administration

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

The information in relation to estimated income, billed income, collected income and outstanding income submitted by sabha related to year under review and the previous year is as follows.

Income Source	Estimated Income	2023		Total outstanding as at December	Estimate d Income	2022		Total outstanding as at 31 December
		Billed Income	Collected Income			Billed Income	Collected Income	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assessment Tax and Other Tax	24,143	23,640	13,418	21,443	24,587	28,226	21,226	24,389
Rents	31,949	24,369	21,159	4,955	29,513	24,956	22,920	4,159
License Fees	3,973	8,340	8,339	2	5,693	3,257	3,254	3,000
Other Income	<u>161,598</u>	<u>118,626</u>	<u>117,907</u>	<u>5,934</u>	<u>33,751</u>	<u>50,490</u>	<u>50,026</u>	<u>1,006</u>
Total	<u>221,663</u>	<u>174,975</u>	<u>160,823</u>	<u>32,334</u>	<u>93,544</u>	<u>106,929</u>	<u>97,426</u>	<u>32,554</u>

## 2.2.2 Income Collection Performance

	<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a)	The action had not been taken to recover an outstanding Assessment Tax of Rs. 20,647,420, Acre Tax of Rs. 796,564 and rent of Rs. 4,955,098 as at 31 December of the year under review.	The action will be taken to recover outstanding.	The action should be taken to expeditiously recover the outstanding income.
(b)	As at 31 December of the year under review, the court fines of Rs. 71,894,229 and Stamp Duty of Rs.124,497,649 had to be recovered from the chief Secretary and other officers of the provincial council	The necessary action will be taken to recover outstanding court fines and stamp duty.	The action should be taken to promptly recover outstanding court fines and stamp duty.

## 3. Operating Review

### 3.1 Management Inefficiencies

	<b>Audit Observation</b>	<b>Comments of Secretary</b>	<b>Recommendation</b>
(a)	The land belonging to the shops constructed by pradeshia sabha adjacent to Naththandiya Peoples' Bank is a land belonging to Naththandiya Divisional Secretariat and no action had been taken to transfer it to sabha.	It had been made aware in writing.	The action should be taken to take over land.
(b)	Any project had not been completed out of 109 projects which had to be completed in 2023 having included into 04 years plan and even though it had been included in the action plan 2023, 08 projects out of 24 which had not been included in 04 years plan had been completed.	The essential development activities should be only carried out and therefore, the all projects including in 04 years plan and action plan couldn't be completed.	The essential development activities should be included in the action plan in accordance with the priority of completing those. Similarly, it had been indicated in the circular that only essential development activities should be performed.

- |     |   |  |  |
|-----|---|--|--|
| (c) | An amount of Rs. 7,804,830 had been incurred by sabha for the construction of food sales outlet and parking of vehicles in Naththandiya city in 2019. However, since the permission of the Road Development Authority had not been obtained, there is a risk of removing the constructions. | No answers had been given.                   | Having obtained the necessary approval, the action should be taken to utilize the government funds in very careful manner. |
| (d) | Mudukatuwa Reading Hall had been constructed at a cost of Rs. 1,377,215 in 2021 with an objective of facilitating the knowledge and education of the children in Mudukatuwa area.   |  |  |
|     | (i) Even though the reading hall had been constructed with an objective of facilitating the knowledge and education of the children in the area, the children had not used it.  | No answers had been given.                   | The action should be taken to effectively utilize the funds when utilizing the government funds.                           |
|     | (ii) Even though an amount of Rs. 934,416 had been estimated for the completion of the rest of works in the upper floor as phase III, such work had not been carried out and 04 pillars had been constructed and only roof had been built.  | No answers had been given.                   | Do   |
| (e) | An amount of Rs. 375,625 had been incurred from sabha funds in 2018 for preparation of the fence around Mattakotuwa playground and said playground and fence had covered with wilderness at the physical inspection.  | Presently, this playground had been cleaned. | The maximum benefits should be obtained from the physical resources constructed with the government funds.                 |

- |     |   |  |  |
|-----|---|--|--|
| (f) | An amount of Rs. 348,290 had been incurred from sabha funds in 2019 for installation of CCTV camera system in solid waste management center and even though it had been indicated that it had been referred for repair after inactivating the camera system, no information was available in sabha about what institute it had been referred and when | The action will be taken to repair and install the camera.   | The action should be taken to repair and install the camera system.                  |
| (g) | In accordance with Community Based Organizations (Water Supply and Environment and Sanitation) Establishment and Regularization Convention No.01 of 2013, the action had not been taken to register 06 identified community based organizations and various irregularities and issues in the community based organizations had not been monitored.    | The action will be taken to register all community based projects in water supply and environmental and sanitation unit in 2024 and monitor in formal way. | The community based organizations should be submitted to obtain the annual licenses. |
| (h) | An outstanding balance of Rs. 75,625 had existed on 30 June 2023 for 31 businesses which had not obtained the relevant industry licenses related to 15 industries and the responsibility of environmental regulation had also been avoided.   | It had been made aware in writing to obtain the licenses.  | The business places should be made aware to obtain the environmental licenses.       |
| (i) | As at 31 December of the year under review, Rs. 47,626,034 was account balance receivable to sabha and a balance of Rs. 18,669,586 exceeding 03 years was within it.  | The necessary measures will be taken to recover the outstanding amount.  | The action should be taken to expeditiously recover outstanding amount.              |
| (j) | As at 31 December of the year under review, Rs. 57,514,467 was account balance payable.   | In the future, the action will be taken to rectify.  | The action should be taken to promptly settle the creditors.                         |

### 3.2 Operating Inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) Even though the Assessment Tax should be revised once in 05 years, the Assessment Tax had been charged in 2023 on the assessment of rates carried out in 2010.	Once new assessment report is received, the Assessment Tax will be charged as per such report.	Having assessed the rates, the action should be taken to charge.
(b) Contrary to section 03 of Circular No. 2019/01 dated 10 January 2019 of Local Government Commissioner, the shops adjacent to Paru canal, Walahapitiya had been leased out for 03 years as per the request of lessee.	Since the lessee had a cancer, it had been leased after 10 percent increase of the rent for 2023 without calling tenders.	The action should be taken to lease the assets by following the procurement process.
(c) The hall in the upper floor of Naththandiya super market complex had been leased out for an amount of Rs.88,000 in 2022 on finance and policy committee decision and on annual general proposal in 2023 without tendering.	The action will be taken to lease out having tendered for the future years.	The action should be taken to lease the assets by following the procurement process.
(d) As per the gazette notification No.2235/54 dated 08 July 2021 of Democratic Socialist Republic of Sri Lanka, even though it had been indicated that the market value of 10 percent of the land subdivided in accordance with II of paragraph 24 of part II of Urban Development Authority No.41 of 1978 of National State Assembly should be obtained from a qualified Assessor, an amount of Rs. 3,693,660 had been charged on the assessment of Revenue Inspector for 05 land parts in 2021 and 2022.	Presently, it had been submitted to a recognized Assessor to obtain the valuations for charging the relevant money related to 10 percent of the land parceled.	The action should be taken as per gazette notification.



### 3.3 Assets Management

	<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a)	In accordance with section 127 of Pradeshiya Sabha Act No.15 of 1987, 15 burial grounds had not been taken over to sabha belonging to the sabha area as per section 03 of Cemeteries and Burial Grounds Ordinance.	In due course, the action will be taken to take over.	The action should be expeditiously taken to transfer the legal ownership of the relevant properties.
(b)	The balance of the savings account was Rs.2, 157,322 maintained by sabha and Urban Development Authority for the collection of the penalties enforced on unauthorized structures and it had not been utilized for an effective development activity.	Even though the written requests had been made to obtain the approval of the Urban Development Authority from time to time for the utilization of the money in this account, no response had been received from Urban Development Authority in this regard.	The action should be taken to utilize the funds whatever effective activity.
(c)	The action had not been taken to lease or utilize for effective purpose the harvest of 21 lands taken over to sabha in parceling the land.	It couldn't be leased owing to non-submission of any lessee and the sabha will yield the harvest.	The action should be taken to obtain maximum benefits from the assets.

### 3.4 Human Resources Management

	<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a)	As at 31 December 2023, 02 vacancies in the tertiary level, 15 vacancies in the secondary level and 43 vacancies in the primary level of sabha had existed.	Even though it had been requested to recruit for approved cadre, no answers had been received so far.	The action should be taken to accurately identify the cadre required for sabha and approve it.
(b)	A balance of Rs. 96,058 is due from 26 employees who had vacated the post, interdicted and transferred.	There is no ability of recovery.	The action should be taken to recover due employee loan balances.

### 3.5 Vehicle Systems Management

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
The cab No.PF- 7478 had met with a sudden accident on 08 February 2022 and even though the preliminary report on losses under F.R. 104(3) related to that had been issued on 09 February 2022, no action had been taken to submit the full report as per F.R.104(4).	Once the report is received, the full report will be submitted as per F.R. 104(04).	The action should be taken as per Financial Regulations.

## 4. Accountability and Good Governance

### 4.1 Internal Audit

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
Even though the improvement of the operating process of the institute is a supportive process for enhancement of the performance, the internal audit of sabha had only paid attention on income collection, checking of attendance registers, checking of payment of allowances and stores inspection.	The action will be taken to strengthen the internal audit by avoiding the weaknesses existed in the internal audit in 2022.	An adequate internal audit should be carried out covering the all activities of the institute.

### 4.2 Budgetary Control

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
Even though Rs.33,266,340 with regard to expenditure head 94 had been allocated by annual budget estimates, the full allocation had not been utilized for achievement the relevant goal within the year under review.	It is agreed with the facts submitted.	The operating activities should be planned for achievement of the budgeted targets.

### 4.3 Sustainable Development Goals

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
It had been scheduled to implement 68 programs in 2023 for achieving the sustainable development goals having identified 08 such goals. The progress of such 53 programs was in less than 50 percent.	It couldn't be implemented the development proposals identified for achievement the sustainable development goals on the instructions given to suspend the development projects which had been included into the annual plan.	The action should be taken to achieve the sustainable development goals and objectives.