

Nuwara Eliya Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nuwara Eliya Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Nuwara Eliya Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 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 (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 Generally Accepted Accounting Principles, 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 Sub-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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 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 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 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.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- Except for the observations in Paragraph 1.6.1 (a) of this report, the recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) Although telephone charges of Rs.22,000 payable as at 31 December of the preceding year had been correctly credited to the creditors account, a sum of Rs.75,000 had been excessively debited to the relevant head of expenditure as Rs.97,000.	It is informed that when preparing financial statements, the opening balance adjustment has not been made as per the revised trail balance by mistake.	This should be corrected in the preparation of financial statements for the ensuing year.
(b) Although entries had been made that the issue of stores goods for the year of Rs.1,066,694 had been debited to the supply and equipment expenditure account (103) and credited to the relevant stock account by journal entry No.20, only Rs.409,858 was debited to the expenditure account and Rs.1,066,694 was credited to the relevant stock account. Accordingly, expenditure of the year had been understated by Rs.656,836 and the manner as to how the account was balanced was not explained.	It is informed that when preparing financial statements, the opening balance adjustment has not been made as per the revised trail balance by mistake.	This should be corrected in the preparation of financial statements for the ensuing year.

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| (c) Stamp duty of Rs.188,469 and Nation Building Tax of Rs.120,454 to be credited to the deposit account had been credited to the income and expenditure account under the other income. | It is informed that when preparing financial statements, the opening balance adjustment has not been made as per the revised trail balance by mistake. | This should be corrected in the preparation of financial statements for the ensuing year. |
| (d) According to the Journal entry No.32 of the preceding year, trade licence fees for the year was Rs. 4,701,936 and recoveries within the year was Rs. 4,566,736 as per the Journal entry No.02. Accordingly, there was a deficit of Rs.135,200 by the end of the year. However, the deficit had not been brought to account. | It is informed that when preparing financial statements, the opening balance adjustment has not been made as per the revised trail balance by mistake. | This should be corrected in the preparation of financial statements for the ensuing year. |

1.6.2 Non-reconciled Control Accounts or Reports

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
There was a difference of Rs. 4,849,263 between the balances as per the financial statements and balances as per the corresponding reports in relation to 10 items of accounts.	Action will be taken to make corrections by the revised trial balance.	Differences should be identified and necessary adjustments should be made in the accounts accordingly.

1.6.3 Lack of Documentary Evidence for Audit

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
Five account balances totalling Rs.118,701,720 relating to 05 items of accounts could not be vouched in audit due to lack of deeds, plans and schedules of balances.	Failure to submit to the audit is a mistake.	Action should be taken to furnish information required for the audit.

1.7 Non-compliance

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comment of the Sabha	Recommendation
----- Circulars of the Commissioner of Local Government -----	-----	-----	-----
Paragraph 04 of Circular No. 2016/03 dated 17 March 2016	When leasing the stalls in the Pura Neguma building, without taking an assessment from an assessor, limited procurement calls had been called for from residents of the area on the minimum valuation of five stalls, ranging from Rs. 60,000 to Rs.300,000 per month, obtained from the Revenue Inspector.	Due to the delay in obtaining an assessment report, a temporary assessment has been obtained from the Revenue Officers of the Sabha and the procurement has been carried out accordingly.	Action should be taken in accordance with the circular provisions.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure of the Sabha in excess of the recurrent revenue amounted to Rs. 5,919,490 for the year ended on 31 December 2020 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 3,804,200. Accordingly, there was a deterioration of Rs. 9,723,689 in the financial results.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
In the recovery of assessment tax, there was an outstanding balance of Rs.1,523,823 as at 01 January 2020. The billed amount for the year 2020 was Rs.2,184,265 and the arrears was Rs. 1,744,624. Out of the water charges of Rs. 1,071,482 at the beginning of the year and the billed amount of Rs.1,514,674, a sum of Rs.1,433,112 only had been recovered and as such, the deficit by the end of the year had increased up to Rs. 1,153,044.	Due to the epidemic situation prevailed in the country, the Sabha took steps to temporarily suspend it and also to provide a grace period for the payment of taxes.	Action should be taken to recover the arrears of rent without delay.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act , being 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.

3.1 Transactions of Contentious Nature

Audit Observation	Comment of the Sabha	Recommendation
Although the calling for procurement for stalls in the Nanu Oya Pura Neguma building was done from 29 January to 12 February 2021, having obtained Rs. 1,500,000 on 17 December 2020 and Rs. 806,400 on 30 December 2020 by the Sabha from 02 persons and signed agreements on 11 January 2021, possession of the stalls had been transferred	The Sabha has unanimously decided to lease stalls in the Pura Neguma building to five persons proposed and nominated by the Sabha in accordance with the decisions 05.01.03 of its General Assembly dated 03 December 2020.	Action should be taken to call for open procurements and to lease stalls in a transparent manner.

3.2 Procurement Management

Audit Observation	Comment of the Sabha	Recommendation
Even though tenders should be cancelled and procurement should be called for again in case of non-receipt of competitive number of applications as per Guideline 2.14.1 of the Government Procurement Guidelines and Supplementary 33 dated 15 March 2017, in leasing out the Puraneguma shops, the Tender Board had decided on 12 February 2021 to award shop to applicants without any comparison, although bids for 05 bids had been submitted at one bid for one shop.	It has been informed that action will be taken to rectify these shortcomings and bids will be called for in accordance with the procurement guidelines in the future.	Action should be taken in accordance with the terms in Procurement Guidelines.

3.3 Deficiencies in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
Construction of safety fence of Sirisamangama water source		
Although the height of the fence should be 2.25 m according to the estimate and the bill, the height of the fence was only 1.8 m. The fence posts were to be made using 4 wires in 6 mm with 100 x 100 mm at the top and 150 x 150 mm at the bottom of the post, but concrete posts with 75 x75 mm at the top and 120 x 120 mm at the bottom had been used for the fence. Although in no way the work was in conformity with the estimate, Rs. 200,000 had been paid with the approval of the Secretary of the Sabha on the recommendation of the Technical Officer.	The contractual Rural Development Society has been informed to rectify the deficiencies pointed out in the inquiry.	Work should be completed in conformity with the estimates.

4. Accountability and Good Governance

Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
(a) It is reported that a strong stench is emanating in the surrounding area from the animal manure stored from time to time for sale at the agrochemicals sales center which is located adjacent to the building in which the Kandapola Ayurveda Center is maintained. The Sabha has been informed from time to time about the irregular storing of animal manure which is a health hazard to the patients visiting the ayurvedic center, ayurvedic medicines and the people around the area, but the Sabha has not intervened in this matter.	It has been informed that legal action will be taken against this place of business in the future, if steps are not taken in conformity with the instructions given.	This issue should be resolved without delay.

(b) The Sabha had purchased a plot of land to implement the solid waste management program, whereas no formal plan had been drawn up and no project had been implemented on the land up to date. There was no subject or officer in charge of the subject in the Sabha in this regard and the waste collected in the Sabha area had been disposed of to the areas of other local government institutions.

It has been informed that payments have been made to the Divisional Secretariat for the acquisition of the land for solid waste management and that further action could not be taken as the relevant land has not so far been transferred to the Sabha.

Action should be taken according to a proper plan.